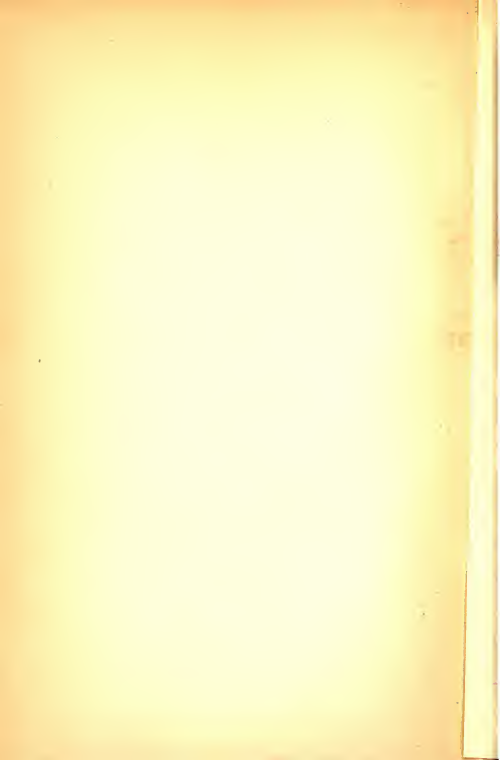


Jerome Davis

•  
**CAPITALISM**  
**AND ITS**  
**CULTURE**  
•









CAPITALISM AND ITS CULTURE

*Books by Jerome Davis*

THE RUSSIAN IMMIGRANT  
THE RUSSIANS AND RUTHENIANS IN AMERICA  
BUSINESS AND THE CHURCH (*a Symposium*)  
CHRISTIANITY AND SOCIAL ADVENTURING (*a Symposium*)  
LABOR SPEAKS FOR ITSELF ON RELIGION (*a Symposium*)  
INTRODUCTION TO SOCIOLOGY (*with others*)  
CONTEMPORARY SOCIAL MOVEMENTS  
THE NEW RUSSIA (*a Symposium*)  
THE JAIL POPULATION OF CONNECTICUT  
CAPITALISM AND ITS CULTURE

# CAPITALISM AND ITS CULTURE

BY

JEROME DAVIS

FARRAR & RINEHART  
*Incorporated*  
PUBLISHERS • NEW YORK



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*TO ALL  
WHOSE FAITH IN SOCIAL JUSTICE  
IMPELS TO ACTION*

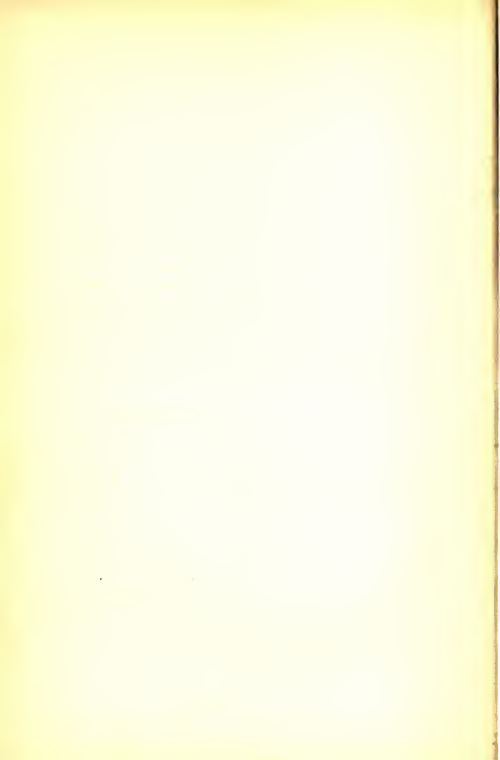


## WITHOUT STATE REGULATION OF BUSINESS

*a utility could henceforth charge any rate, reasonable or otherwise; the railroads could go back to rebates and other secret agreements; the processers of foodstuffs could disregard all rules of health and of good faith; the unregulated banking of a century ago could be restored; fraudulent securities and watered stock could be palmed off on the public; stock manipulation which caused panics and enriched insiders could go unchecked. . . . The old law of the tooth and claw would reign once more. . . .*

*. . . the people of the United States will not restore that ancient order.*

FRANKLIN D. ROOSEVELT





## INTRODUCTION

WE live in a capitalistic era and should uncover and appraise all ascertainable truth about the age in which we live. Surprisingly enough, there has been little or no detailed scientific research carried on concerning the general effects of capitalism and the part it plays in the life of the ordinary citizen. Thorstein Veblen, Sidney Webb, R. H. Tawney, Harry Ward, Harold Laski, and others have done notable work in this field, but there are still large areas of virgin territory to explore. It is anomalous that while we are living under capitalism we should know so little about its effects. Like the men who were shipwrecked and dying of thirst and then discovered they were floating in the mouth of the Amazon, our society has a tendency to grant funds for research in almost any field except those on the actual effects of capitalism itself; yet this area may be the most vital and fruitful of all.

The following book is not designed to be a complete study of capitalism. No one is more clearly aware of its imperfections than the author. To make an adequate study of capitalism would demand a staff of assistants and an appropriation of money equal to the amount spent on "Recent Social Trends." No American research foundation apparently is willing to finance such a study, nor have students in the field seen fit to deal exhaustively with the subject.

Since the author was unable to secure funds for this research, the data are not as complete as he could wish. To have delayed publication for further accumulation of statistics is of doubtful expediency at a time when men are questioning as never before the very fundamentals of our social order. It is probably too much to hope that conservatives and those who themselves are responsible for the failure of the research foundations to appropriate money for studies of capitalism will not now criticize this

manuscript because it does not come up to the standards of research possible when thousands of dollars are available. Under such handicaps mistakes are inevitable, but it is the contention of the writer that these will not change the main argument of this volume, which depends not on any of the individual examples cited but on the trends and mass effects which clearly confront us.

This book is written because the times demand it. The reader may not like it, the critics may confound it, but our economic order nevertheless needs all the honest analysis any student can give. That this volume will call forth from others a more exhaustive treatment of this complex subject is a hope ever present in the purpose of the author.

In this volume no attempt has been made to describe all the aspects of the subject. An entire chapter has been devoted to the strongest case which the author could make in defense of capitalism. On the other hand, since most Americans who live in the capitalistic milieu are daily told directly and indirectly about the advantages of the system, he has not hesitated to devote most of his space to a critical analysis of capitalism and its effect on our culture.

To some extent, the title of this volume is misleading. Culture is a much broader term than capitalism, embracing all the heritage of the ages, both material and immaterial, which has been handed down by man. Capitalism is but one of many behavior complexes which make up our cultural heritage. Nevertheless, this volume is concerned primarily with capitalism and its effect on important aspects of our culture. This effect is so powerful that its ramifications spread to nearly every phase of life. A canning factory in a small town may seem a small thing, yet it definitely relieves the housewife of the necessity of canning her own vegetables and fruit. This may create a new leisure problem. At any event, with the canning factory comes a laboring population, long hours, speeding up, wage cuts, strikes, unemployment, perhaps riots and even martial law. It is with this complex chain of phenomena, among others, that the writer is concerned.

Naturally, an analysis of the going economic order must be critical. In citing concrete instances and naming particular per-

sons the author has not intended to censure individuals but to help the reader to understand the workings of a system. Abstractions do not sufficiently portray reality. A system may be indicted without necessarily implying that all those who are embroiled in it are at fault. How individuals can escape from taking part in the system as long as the system endures is difficult to see. Any critic is enmeshed in the capitalistic order and is affected by it at a thousand points of daily conduct. The fact that all of us participate in its practices and are affected by them is but one more proof of the all-pervasiveness of the capitalistic pattern. Capitalism has had its effect on culture and it is this effect that we have tried to analyze. The author is quite aware that many Americans, including those who are in business, are not operating strictly according to the philosophy of the capitalistic system. They are really trying to render service to their fellow men and are not out to get all the profits they can. No matter what economic system ruled our society, we should still require teachers, doctors, lawyers, farmers, workingmen, and men and women with the hundreds of other occupational skills which make up the complex coöperative effort that provides us with the myriads of articles which we use.

The author is indebted to *The American Journal of Sociology*, *The Century Magazine*, *The Atlantic Monthly*, *The Forum*, *The World Tomorrow*, *Social Forces*, and *Sociology and Social Research* for some of the material which has already been published in these periodicals. He wishes to express his appreciation to all those who have read chapters in this volume and given suggestions, including John H. Gray, past president of the American Economic Association, who has read the entire manuscript; David Owen of Yale University, who read the first chapter; Edward A. Filene of Boston, who read the chapter on The Case for Capitalism; C. R. Shaw, expert on penology and author of the second volume of the Wickersham Report, and George B. Vold of the University of Minnesota, who read the chapter on crime; Ferdinand Pecora, counsel for the United States Senate and member of the Securities Commission, who read Chapters V, VI, VII, and VIII; S. Nearing, for reading some of the earlier chap-

ters; Douglas Macintosh and H. Richard Niebuhr of the Yale University Divinity School, who read the chapter on religion; George Counts of Teachers College, Columbia University, who read the chapter on education; Fred and Miriam Blachley of the Brookings Institution, Washington, D. C., who read the chapter on government; Paul H. Douglas of the University of Chicago and John A. Fitch of New York, who read the chapters on the workers and the farmers; and Arthur E. Morgan, head of the Tennessee Valley Authority, who read the chapter on production. None of these individuals are, of course, responsible for any of the material presented or for shortcomings in the manuscript.

The author wishes to thank the workers who have helped to produce this volume. From the lumberjacks who felled the trees to the workers in the paper mills and the printers who set up the type, all of these men and women have done an indispensable service in making possible this work. Thus this book itself is an example of the coöperative effort of the workers with both hand and brain.

JEROME DAVIS.

*New Haven, Connecticut*  
*March 8, 1935*

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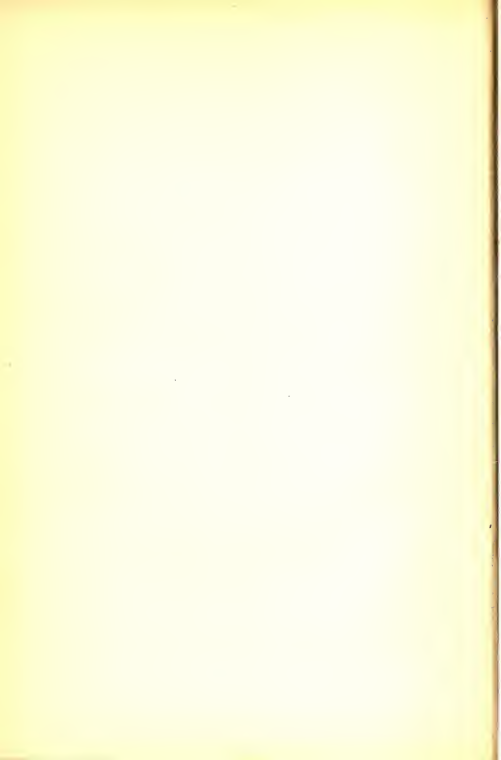


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*PART ONE*



# CAPITALISM AND ITS CULTURE

## CHAPTER I

### THE RISE OF CAPITALISM

MAN is still a child exploring a universe he does not understand, now advancing, now retreating, bewildered before a complex array of natural resources and forces which give him the illusion of mastery even while they may succeed in mastering him. Mankind is still playing with toys—toys so dangerous and powerful that at any moment they may destroy him and his playground. Indeed, at periodic intervals, when men have quarreled over trifles like children, the playthings have done such deadly damage that it has taken decades to recover.

The citizens of the western world, for the most part, have prided themselves that they were living in a period of civilization, a great industrial era, a concomitant of a triumphant and benevolent capitalism. It is not within the scope of this volume to describe the origins of this epoch or the various stages of societal evolution which have preceded capitalism. Nevertheless, a few side lights on the road over which humanity has traveled to reach the capitalistic era may not be out of place.

#### CAPITAL BEFORE CAPITALISM

Mankind has always had to labor and there has always been capital accumulation of some sort. Nevertheless, it is not true that capitalism has existed ever since the dawn of history. Mankind has had capital savings, as represented by crude weapons or other implements, from a very early period—but capital is not capitalism. The domination of capital in a system known as capitalism is of comparatively recent origin. To be sure, private

property for use has been a common phenomenon. Sometimes this has been accumulated by the use of slave labor, which enforced self-denial on the slaves and resulted in capital accumulation for the masters.

Until relatively recent times the basic economic unit has been the simple agrarian community. This was largely self-contained, produced almost all it needed, and consumed almost all it produced. In the period of ancient civilizations, the average man had to become accustomed to plagues, eras of prosperity caused by plentiful crops and booming trade, eras of famine, wars, and internal conflicts. Up to about A.D. 1500 there were few important technical inventions which brought in mass accumulation of gold. The growth of capital from trade and industry was relatively slight.

One of the earliest forms of accumulation was that of *land capital*. Sometimes this was held for the joint use of a privileged group; usually it tended to become concentrated in the hands of a feudal aristocracy. But feudal tenure was always contingent upon responsibility on both sides. The serf toiled to support his ruler in return for protection. The system enabled the feudal lords to become powerful and wealthy in land.

#### COMMERCIAL CAPITALISM

The empire of commerce was destined to displace the feudal era. Following the Crusades there developed a merchant class which traded abroad. This maritime commerce tended to bring about capital accumulation. Some of this trading became so profitable that large fortunes were built up along the trade routes; markets were established where articles were bought, sold, and exchanged. This greatly aided the development of a professional class of money changers and money lenders. Because of the extravagances of many of the great princes there was considerable demand for loans at high rates of interest, usually not less than 20 to 25 per cent.<sup>1</sup> Money lenders often became enormously wealthy by this means; sometimes they were also given monopoly rights in making loans on pledges (pawnshops).

<sup>1</sup> Bibliography at end of book.



By the thirteenth century we find exchanges on a national scale and an international trade in certain articles, mostly luxuries. Specialization of labor had hardly begun, but there were farmers, merchants, and craftsmen. Except for the feudal castles and the fortunes of a few powerful individuals, there was not any widespread accumulation of wealth. The discovery of the new world gave enormous impetus both to foreign commerce and the amassing of riches. Trading corporations arose which really marked the rise of *commercial capitalism*. Craftsmen lost their control over the finished product. Wealth began to purchase the raw materials and hire the craftsmen to finish the product, after which it was sold by the wealthy class so as still further to augment their surplus.

About 1580 Sir Francis Drake returned to England with the treasures of the *Golden Hind*. These had been stolen from the Spaniards, who had in turn stolen them from the Indians of Mexico and Peru. This treasure was so great that it enabled Queen Elizabeth to pay off the entire national debt and invest \$200,000 in an enterprise which was later to become the East India Company. J. M. Keynes tells us that this sum, compounded at  $3\frac{1}{4}$  per cent from that date to 1930, equals just about twenty billion dollars.<sup>2</sup> Strangely enough, this just equals the total value of England's foreign investments as it stood in that year.

It was not long before the merchant trader could challenge the power of the feudal lord. As a result the feudal system was overthrown. The merchants had won their struggle for a free market. This meant money could buy what it wished, how, when, and where it wished. This was decidedly advantageous to the middle group of the population who were neither serfs nor feudal lords. Their very existence depended on a free market and they fought for it. In England, from 1640 to 1688, one finds a struggle going on between the power of this rising merchant class and the unlimited authority of the king, with increasing advantage to the former. British trade grew in the seventeenth and eighteenth centuries by leaps and bounds. The American colonies, the Spanish possessions, Africa, and the West Indies, all were clamoring for wares, while the Orient provided a profitable trade in tea and

silk. Into this situation economic and technological developments of the eighteenth century presaged the coming of industrialism.

#### INDUSTRIAL CAPITALISM

Kay's fly shuttle doubled the output of the individual weaver. It was soon followed by the invention of the spinning jenny, which increased the supply of yarn, and by the power loom in 1785. Eight years later the cotton gin was invented and within two years the steam engine was being used in the manufacture of cotton. Early in the nineteenth century mankind discovered the possibilities of applying steam to locomotion. By the latter half of the same century further discoveries had made possible the production of machinery by machinery. During or before the eighteenth century the independent craftsman had virtually disappeared. Machinery was expensive and the worker came to be simply the hired employee of the capitalist, with no rights of his own except to do as he was told or leave his employment.

The industrial process now required large sums of fresh capital, a concentration of raw labor, and the gradual urbanization of society.

While this transformation was in process the inevitable concomitants of capitalistic development in its early stages were present. Children toiled long hours in factories far from home; even orphanages were sometimes recruiting stations for child labor. If the children revolted against the long hours of drudgery in the factory they were whipped. Wages of adults were often at the starvation point. Industrial disease and accident were considered inevitable and little effort was made to control them. The description of the terrible conditions is portrayed in Alfred's "History of the Factory" and Engel's "Condition of the Working Classes of England in 1844."

Medieval industrial life was destroyed by the combined force of the steam engine and the power loom. Population was torn up by its roots from rural settings and transferred to great urban factory centers where individuals became mere hired hands tending machines. The factory system resulted in periodic eras of overproduction and depressions such as had never before been

known. By 1830 the era of *industrial capitalism* was in full swing. This was later to be modified by the era of giant combinations, mass production, *imperialistic capitalism* and *finance capitalism*. As this monopolistic finance capitalism began to disintegrate in Europe, Fascism was destined to prolong its sway.

#### IN THE NEW WORLD

When we turn to the growth of capitalism in America, it is obvious that in the early colonial period there was no established capitalistic order. There were men of wealth, to be sure, but the country was new and thinly settled. Each homestead was a unit in itself. A family with reasonably good land could be almost, if not entirely, self-sufficient. A virgin continent needed development. Under such circumstances, however much one might speculate about the possible development of a more coöperative social order, capitalism succeeded in quickly exploiting and so developing the country. Of course, capitalism as we know it would not have been possible except for the industrial revolution which brought in the factory system. In England this revolution had to be superimposed upon an older feudal system; in the United States it grew up with the country. In developing a virgin continent the lure of quick profits caused much wastage and did other serious damage, but it also acted as a spur to get railroads built, power plants constructed, and factories turning out goods.

In its beginnings America was entirely an agricultural settlement. The first agrarian communities were independent of the factory except for a few metal tools and weapons. Goods were produced and consumed by the same group that owned the means of production. They had a planned economy and determined exactly how much they would plant, what animals they would raise, and the extent of their needs. There was no unemployment. Insofar as goods were sold it was by the barter method. There were no mortgages, stocks or bonds, or even interest. Practically all human relations were by face-to-face contacts. Machines were practically unknown; man did all his work with the aid of animals and his own muscles.

How this simple agrarian life was transformed into the complex

civilization of today, which is largely unplanned and where the workers toil for absentee owners, is the story of the gradual industrialization of America and the growth of *finance capitalism* and *imperialism*. It is the epic saga of the growth of a great nation. To some extent, in its development in the new world, capitalism recapitulated the various stages of capitalistic evolution abroad.

When America began to be settled there were in it no royal families, no feudal princes, no religious orders owning lands and forests. Indeed, as late as 1860 the United States government owned over one-half of all the land area of the country (1,048,111,608 acres) and it was willing to give this land away for a song or even for mere settlement.

America had first been colonized largely by trading corporations, such as the London Company and the Dutch West India Company and the Massachusetts Bay Company, which were all operating for profit. Although the promoters had devoutly hoped that gold might be found, they found instead the profitable tobacco crop. The corporations' efforts to keep the ownership of the land in the new world were soon given up, since it was discovered that no one would toil to develop land which belonged to absentee English owners. Huge landed estates gradually grew up in America, where servile labor toiled in order that great landed capitalists might live luxuriously. In the north the soil was not fitted to raise such large-scale produce as tobacco and cotton; there the small farm came to predominate. Nevertheless, on the whole, America had become the home of *landed capital*.

Quickly, however, a merchant class arose. From the gigantic agricultural areas, by 1776, such products as corn, flax, flour, furs, hemp, peas, cotton, tobacco, and livestock flowed across the seas. Sugar and molasses from the West Indies were transformed into rum, which in turn was exchanged for slaves. Thus arose mammoth fortunes and *merchant capital* in the new world.

For a time the industrialists of England hoped to keep America as a permanent market for her manufactured goods and as a source for her raw materials. Although the free market demanded freedom of trade throughout the world, English industrialists

endeavored to prevent the free export of production machinery. Laws were enacted forbidding the exportation of machinery or the migration of artisans to America. For instance, in 1750 the building of rolling mills or steel furnaces was strictly forbidden in the new world. In 1782 a penalty of \$2,500 was laid on the export of machinery for the cotton and iron industries. American manufacturers promptly began to smuggle in machinery or build it themselves. In the Revolutionary War, and especially in the War of 1812, the American colonists fought to establish their own free market, their own productive mechanism, and they won. *Industrial capitalism* was destined to conquer the new world.

Providence saw fit to endow America with colossal stores of iron, coal, oil, copper, precious metals, and lumber—all ready and waiting for exploitation. The pioneer country, the selective effect of migration, the adventurous spirit of the people, the rugged individualism of the mores, all contributed to furnish leadership to exploit these resources. The cost was tremendous—our forefathers destroyed magnificent forests merely to obtain lye. To secure small gardens they burned over entire mountain ranges. They slashed down great trees, which take hundreds of years to reproduce, merely for bark for tanning or even for chewing gum.<sup>3</sup> In spite of such waste, little by little, industrial capitalism forged to the front. From 1820 to 1840 the value of manufactures increased ten times over, to roughly \$500,000,000. Nevertheless, factories were few in number, and up to 1849 the Census lumped together factory, hand, and neighborhood industries. At that time there were fewer than a million wage earners; in the next half century the number increased 453 per cent. From 1899 to 1930 the rate of increase was not so great, roughly 66 per cent. The size of the factories in the United States also grew with amazing speed. In 1849 the average number of wage earners per manufacturing establishment was only 7.8; by 1923 it stood at 44.7, while in 1925 roughly 57 per cent of all the workers in manufacturing were employed in 15.6 per cent of the plants. As far back as 1880 the machine was being used everywhere in the manufacturing process and the triumph of industrial capitalism was certain. From 1880 to the present time America has been in

a period of combination and centralization in which the financier has taken an increasingly important position. By 1920 *finance capitalism* was in complete control. Gould, Vanderbilt, Huntington, Hill, and Harriman in the railroad field, Swift and Armour in the field of meat packing, W. A. Clark in mining, and J. Pierpont Morgan in banking—these were some of the rulers of America in this transitional period.

#### FINANCE CAPITALISM

To understand how the various natural resources were turned into capitalistic treasures of untold wealth let us take as an example the story of oil. For a long time the phenomenon of "rock oil" had been known. Not having any other use, it was sold as a patent medicine, claiming to cure "cholera morbus, liver complaint, bronchitis, and consumption." About 1850 one such medicine vender, Samuel Kier, accidentally discovered that oil could also be used as a lubricant and luminant. In 1859 the first successful oil well was sunk. Immediately the oil craze was on. Individuals who had eked out a meager living from the soil were turned into millionaires overnight. By 1871, 150,000,000 gallons of oil were being exported from America around the world.

In 1862 John D. Rockefeller, the son of an Ohio farmer, only twenty-three years of age, began to invest his meager savings in a Cleveland oil refinery. Eight years later he was starting the Standard Oil Company, an Ohio corporation. Any methods were employed, legal or otherwise, which would make the business financially successful. A deal was entered into with the Erie, Pennsylvania, and New York Central Railroads to secure a \$1.06 rebate on every barrel of crude oil shipped to New York, even if it came from competitors. Similar rebates were to be given for shipments to other points. Had the scheme been successful it might have returned upwards of \$6,000,000 a year from rebates alone. The secret scheme was discovered, a congressional committee declared it a "gigantic and daring conspiracy," and the arrangement was abrogated.

Within a few months Rockefeller had made a secret arrangement with the New York Central Railroad for rebates on all his

own oil shipments. This plan was soon in operation with other roads and Rockefeller was beating his competitors through special privilege. He began to buy up the refineries and within ten years was master of that field. In 1878 the Tidewater Company began to pump oil to the Atlantic Coast. The Standard Oil immediately secured a right of way for a pipe line of its own and began to purchase stock in the rival company. By 1883 it had secured complete control of the Tidewater. It then began a systematic campaign to sell its products throughout the United States. It did not hesitate to cut its prices as far as necessary in order to force rivals out of business, and then would raise prices again to recoup its losses. Espionage, intimidation, and dubious methods of all sorts were used to force merchants to handle Standard Oil products only.

By the use of similar ruthless means the Standard Oil Company acquired control by 1887 of drilling, pumping, and the oil fields themselves. By this time it was master of the empire of oil, from the drilling fields to the lamps in the consumers' homes. All effective competition had been annihilated and the consumer lay at the mercy of the oil trust. Profits in almost unlimited quantities could be taken at the mere command of Rockefeller.

In 1882 there were Standard Oil Companies in many states. It was decided to bring these together by centralizing management and control in the hands of nine trustees, who issued trust certificates to those who held stock. In 1890 the attorney-general of Ohio brought suit to annul the Standard Oil charter on the ground that it acted illegally in joining this trust arrangement. At this time Marcus A. Hanna, the politician behind President McKinley, was representing the oil company. Its attorney was Joseph H. Choate, one of the most able corporation lawyers of the period. In spite of all these powerful influences the Ohio supreme court ordered the dissolution of the trust. However, the charter of the company was not annulled and the trust simply refused to dissolve. Litigation was again resumed and lasted for eight years, until in 1900 a subservient attorney-general let the matter drop.

In 1911 the Standard Oil leaders reorganized under the Stand-

ard Oil Company of New Jersey. In the same year the United States Supreme Court ordered the dissolution of the trust into its various constituent elements. But by this time it did not seriously matter. The Standard Oil Company of New Jersey was able even after this dissolution to pay a 60 per cent dividend in 1913 and a 400 per cent stock dividend in 1922. Even in the depression year of 1935 it was still paying the reduced dividend of \$1 a share on 25,470,965 shares of common stock. Thus the evolution of a natural resource from a patent medicine to a great industrial product also illustrates the transition from merchant capitalism to the finance capitalism of the mammoth oil trusts of the 1930's which stretch around the world.

The story of oil <sup>4</sup> might be retold with manifold variations in such other lines as railroad transportation, the production of steel, and that of automobiles. The mammoth United States Steel Corporation started with a \$5,000 partnership of the Kloman Brothers, who owned a small iron forge. Six years later Andrew Carnegie was taken into the firm and the capital had grown to \$50,000. One year later, through mergers, its capital swelled to \$250,000. In 1881 it combined again with coke, steel and railroad companies to form a \$5,000,000 concern. The very next year it took over coal lands and in 1892 put into operation a fleet of ore boats and was reorganized with a capital of \$25,000,000. In 1901 finance capitalism, in the persons of J. P. Morgan and Company, stepped in to organize the United States Steel Corporation, with a capital of \$1,402,000,000. By this time it had 149 steel plants, over 1,000 miles of railroads and over 100 lake steamers. Today it owns vast areas of ore, coal, gas, and limestone properties. It has become a vertical trust, owning every bit of the process from the raw ore to the finished product.

Both of these examples illustrate the *transformation process from simple industrial capitalism to banker-finance capitalism*. A new invention makes some natural resource socially useful. Individuals organize to exploit it for private profit. Free markets, "free" labor, and *laissez faire* produce their inevitable results. Sooner or later competing groups of corporations and individuals combine to become dominant in the industry. Then the industry



comes to work closely with certain banks until finance capital has a powerful if not controlling hand in the enterprise.

#### WORKERS AND MERGERS

It has been orthodox to say that if in this rough fight for economic dominance the workers found conditions too intolerable in one spot they could go west and take up government land. Many sayants have assumed that prior to 1890 this was always a possibility for the worker. The theory is highly questionable. The probabilities are that it was only the exceptional worker who was lucky enough to move his family. The rank and file were, from a rather early date, compelled by the pressure of economic want to stay in the industrial process. Gradually, industrial and then finance and monopoly capital operated to make the individual worker a mere pawn in a huge industrial empire.

The National Industrial Conference Board, an organization of employers, declared that as far back as 1931 62 per cent of all those employed in manufacturing were working in plants with 500 employees or more. At the same time, while only 0.5 per cent of the manufacturing plants employ 1,000 or more employees, these concerns actually are using one-quarter of all the wage earners in manufacturing industries.

#### IN THE WHOLE WORLD

The processes of industrial and financial capital have occurred on a world-wide scale and no nation is now entirely independent of the others. W. C. Redfield <sup>5</sup> has clearly shown how dependent is the United States. We import most of our silk, manganese, tin, and a host of other products. Carpets, linoleum, hats, shoes, and rubber goods all depend on foreign products. A half million animals are killed each day outside the United States to supply our needs in leather and fur, while to meet the demand of dental hygiene 25,000,000 tooth brushes are imported each year.

#### IN THE LAW

Following the changes in our industrial and economic life have come changes in our mores and our legal traditions. Under the

feudal system all property was considered a trusteeship from God. The ruler had his responsibilities to the feudal serf. With the coming of capitalism, as Professor Walton Hamilton has so cogently stated, "Things were in the saddle; and the thinkers, as is their wont, set out to explain the inevitableness of it all."<sup>6</sup>

Adam Smith believed that the right every man has "in his own labor" was "the original foundation of all other property."<sup>7</sup> Hence, if each man is allowed to labor freely with no interference from the state or other body, the economic affairs of society will largely take care of themselves with great benefit to all. This is the famous *laissez faire* doctrine which was destined to be used as an argument in favor of giant trusts, high tariffs, and public-utility monopolies! With the advent of vast capitalistic enterprises the doctrine of every man's achievement by his own labor failed to justify new and larger capital returns. The theory was advanced that a high return on capital was justified because the owner denied himself for a time the pleasure of spending. This was the doctrine of "abstinence."

In the United States at first the common law protected property, which consisted primarily of land and tools used by their owners. Property was largely for *use*. But with the growth of industrial capitalism production came to be carried on for profit. From the Slaughter House Case in 1872 to the Allgeyer Case in 1897 the United States Supreme Court changed the basis of its legal rulings from a *use value* to an *exchange value* of things. It was a swift transformation.

The Thirteenth Amendment to the Constitution, adopted in 1865, prohibited slavery and involuntary servitude. The Fourteenth Amendment included a clause declaring that no person could be deprived of "life, liberty, or property without due process of law." In 1872 the Supreme Court of the United States decided that the legislature of Louisiana could legally give a monopoly right to slaughtering places in the city of New Orleans. The majority of the Court held that the act had not deprived the butchers of the use value of their property but only of its exchange value.

By 1897 the Court reversed itself, declaring: "His [the citi-

zen's] enjoyment upon terms of equality with all others in similar circumstances of the privilege of pursuing an ordinary calling or trade and of acquiring, holding, and selling property is an essential part of liberty and property as guaranteed by the Fourteenth Amendment." <sup>8</sup>

The triumph of the free market was complete.

Locke had justified property as an isolated possession of personal origin. Today property is represented by the gigantic collectivism of business. An amendment was added to the Constitution to protect individual black men from slavery; then corporations were adjudged persons and social legislation was declared illegal. The United States Supreme Court, by the use of such phrases as "freedom of contract," made illegal such state laws as those regulating loaves of bread, prohibiting the use of shoddy goods, and fixing the fees of employment agencies. As Walton Hamilton has said, Locke assailed the divine right of kings and penned words which have been used to enthrone property. This was the intellectual heritage handed on from a decaying feudal to a rising industrial society.<sup>6</sup>

The industrial revolution and finance capital have brought tremendous changes in American life. We have seen a revolution in the transportation and production systems, a concentration of finance, an urbanization process, and a change in our legal system and in our mores. Our lives today are almost as strikingly different from that of Abraham Lincoln as was his from that of the patriarchal Abraham in the Old Testament. Capitalism and the changes which inventions bring are still transforming our lives with lightning rapidity. No one knows just what will be the effect of the airplane under capitalistic control. It may even de-urbanize our living.

#### POWER AND PLENTY

It is possible to think of the industrial revolution and the machine age as being already superseded by a power age. The rise of electricity has made it possible to eliminate large numbers of workers. For instance, in one plant of the Aluminum Company of America a single operator in a control room regulates the tem-

perature and operating cycle of fourteen electrically heated soaking pits. He also directs the mill crane and the gantry crane in the charging and discharging pits. Even in far-off Russia sixty men with electrical equipment turn out thirty-six tons of aluminum daily.<sup>9</sup>

It is now a commonplace to say that we have passed from an economy of scarcity to an economy of plenty. Yet we are still trying to live as if there was scarcity when we are in an era of plenty. Not so many factories are needed to supply all the American people with shoes, yet thousands have to go barefoot. A nationally known engineer, Walter N. Polakov, formerly superintendent of the New York, New Haven and Hartford Railroad, has declared that if our productive equipment were brought up to its possible efficiency we would not require more than 375,000 workers to produce all that we need for subsistence.<sup>10</sup> Although we have passed into the power age and are living in an era of plenty, finance capitalism still remains dominant. In consequence the capitalistic system has also brought us to an era of concentration and holding companies. The President's Research Committee on Social Trends reported in 1933:<sup>11</sup>

The record of over 1,200 mergers in manufacturing and mining between 1919 and 1928, involving a net disappearance of over 6,000 independent enterprises by the end of 1928 and some 2,000 more by the end of 1930, is far from a complete record of mergers in all fields. Over 4,000 enterprises among public utilities were absorbed in the same period before 1929 and nearly 1,800 bank mergers caused the disappearance of an unrecorded but probably larger number of banks. Many consolidations have taken place in other fields, such as the movement toward vertical integration in the motion picture industry from film producer to chains of theatres.

In the retail trade the chain-store movement was already, by 1930, transacting one-fifth of the total retail business of the country; today it has a still larger proportion.

The holding company, a device which allows one company to hold stock in any other company, has such a firm foothold in the public-utility fields that ten groups of systems do roughly

three-quarters of the electric light and power business of the country and sixteen holding companies control almost half of the country's gas output.<sup>11</sup>

The latest aspect of the development of capitalism is the attempt to devise codes which will enforce uniform labor conditions on all the manufacturing concerns of a particular type of industry. It remains to be seen whether the federal government will be able adequately to enforce these codes and whether they will protect the consumer from profiteering. Since under *finance capitalism* the bankers and men of finance float securities, issue loans, and control industry for profit, it is doubtful if they will permit restrictions which will curtail their money income. At the present time the world has a complex economic order which is an *intertwined network of commercial, industrial, financial, and international capitalism*. Its social repercussions, its effect on the culture of our epoch—in short its total cost to the American people—have been little studied, but it has been accepted as an integral and indispensable part of the social order.

Only recently in America the assistant secretary of state stated privately that President Hoover "would give his life tomorrow" if he could save "rugged individualism" and capitalism. Nevertheless, in spite of the efforts of President Hoover, capitalism went from crisis to crisis until almost every bank in the country was closed. It is still suffering today. Capitalism is not extremely old, but apparently has had a serious paralytic stroke. The patient will probably recover and may regain what appears to be perfect health, but no one can tell when the next stroke may come, and the next one will be infinitely more dangerous than the first. The diseases of capitalism are no longer the diseases of youth, from which one recovers completely; they are rather the functional and organic disturbances of middle age, which can never be entirely eliminated as long as the patient lives.

#### DEFINITIONS

We are living under a capitalistic system which in the past has had the support of nearly every organized force in society. One hundred and forty-five prominent Americans proudly put

themselves down as capitalists in *Who's Who in America*, and, as the editor states, many more belong in that category. It is doubtful whether many of these distinguished gentlemen would be able to define the term or agree on a definition if they did. Few people know exactly what it is. In fact, the use of the word is as frequent as its definition is rare. Most of the economic textbooks never even attempt a definition at all. To some citizens it means only the good system under which they have lived reasonably happy and contented lives; to others it means the perfect system under which they have built up a fortune for themselves and their dependents. In other words, to these people it means only that which they consider finest and best in our civilization. For capitalism itself is a form of utopia. To many of its beneficiaries it seems already to have brought in that ideal state where there is a "chicken in every pot," a cottage for every family, and where poverty is no more. Its supporters declare it can organize and distribute the good things of life more equitably than any other system known to man.

In order to define capitalism we must first clear away some of the misconceptions as to just what it really is.

In the first place, capitalism is not the mere accumulation of capital. Capital may be accumulated under almost any system, even communism, socialism, or the coöperative movement. Modern capitalism includes the whole process of transferable securities, which in one sense are not capital at all but paper claims to capital. Again, capitalism is neither thrift nor efficiency. Capitalism may promote thrift and strive for efficiency, but so may the coöperative system or any other.

Capitalism is not the age of machinery. While there are those like Gandhi who would do away with machinery and go back to the handicraft era, most of the alternatives to capitalism provide for the utilization of machinery to the maximum extent possible.

Capitalism is not technology or mass production. These are concomitants of capitalism which might be used under any system.

It goes without saying that capitalism is not synonymous with public libraries nor great universities. Almost every alternative

to capitalism believes in both. What, then, is this economic system under which we live?

When we turn to scientific definitions we find ourselves in a strange predicament. Most writers have failed to define capitalism itself. Even when they do their interpretation has usually been a vague one. Professor John R. Commons, distinguishing capitalism from feudalism, declared, "It is a system under which man has changed from a use value to an exchange value of things." Professor Slichter of the Harvard Business School describes capitalism in these words:<sup>12</sup>

In an overwhelmingly large proportion of cases, the decision to start a business is made by those who contribute all or part of the capital—that is, by capitalists. They select the officials, choose a location, have buildings erected, equipment installed, and workmen engaged. The officials, being hired by the capitalists, are responsible to them and removable by them. Their job is to run the business in the interests of the capitalists and to pursue the policies which will yield the maximum advantage to them. Today then, instead of goods being made largely by persons who also sell them in the market, goods are made by wage earners who use capital which they do not own and who work under the direction of supervisors who are responsible to the owners or capitalists. Because the vast majority of present-day enterprises have been organized by capitalists and are controlled by them, we refer to our economic order as *capitalism*, or as a capitalistic organization or system.

Professor Edwin R. A. Seligman of Columbia University more specifically defines capitalism as "that form of economic life which, resting on the desire to earn profits, places in the hands of a specific class the control of every stage in the process of production from the supply of the raw material to the sale of the finished product on the market."<sup>13</sup> Adolph Webber, in his "Defence of Capitalism," maintains that it is "that interaction of economic units which are fundamentally impelled to progress by an individual striving for profit accompanied by capital risks, and maintained in equilibrium by competition." The editor of the "Encyclopedia Britannica," J. L. Garvin, declares that capitalism is "the world-wide modern system of organizing production and trade by private enterprise free to seek profit and

fortune by employing for wages the mass of human labor." Werner Sombart, in the "Encyclopedia of the Social Sciences," declares that the spirit of the capitalistic system is acquisition, competition, rationality, and a money purpose. The attitudes logically inherent in acquisition may be described as "freedom in acquisition from regulation by norms imposed from without, the lack of quantitative limits to acquisition, its superiority over all other aims," and "its ruthlessness." He declares that profits, no matter how large, are never enough.

Wherever acquisition is absolute the importance of everything else is predicated upon its serviceability to economic interests. A human being is regarded merely as labor power, nature as an instrument of production, life as one grand commercial transaction, heaven and earth as a large business concern in which everything that lives and makes is registered in a gigantic ledger in terms of its money value. Ideals oriented upon the value of the human personality loosen their hold upon man's mind; efforts for the increase of human welfare cease to have value. Perfection of the business mechanism appears as the only goal worth striving for; the means become an end.

Among others who offer definitions of capitalism, A. Shadwell of England says, "Capitalism is a particular mode of using material and financial capital characterized by the following conditions: (1) private ownership (2) production for profit (3) by means of hired labor so as (4) to procure for the owner an income without work."<sup>14</sup> Sir W. J. Ashley in *The Economic Organization of England* defines it as "the modern method of production, directed for the profit-making purposes of capital." Professor Henri Sée of France defines modern capitalism as the development of large-scale industry, the machine process, the triumph of finance, and large-scale international commerce.<sup>15</sup>

M. Gide declares that capitalism exists when capital is "made an instrument of money-making and the means of attaining an income without working."

Charles A. Beard says, "Capitalism is a system of production in which the primary object is the gain of profit through exchange."<sup>16</sup>



While there are some differences in details in the above definitions, there is on the whole unanimity of opinion. Simplifying them in a shorthand phrase (which is never entirely satisfactory), we might state that *modern capitalism is the economic system under which production, distribution, and finance are becoming concentrated into large-scale interrelated units, which are, on the whole, organized into corporations, privately owned, and controlled by a minority who run them for private profit.*

Definitions are never entirely satisfactory but it can be seen at once that the essence of capitalism is that the economic machine shall be run for the private profit of the few. Before we attempt to dissect certain of the basic processes of present-day capitalism let us examine certain of its defenses and its philosophy.

## CHAPTER II

### THE CASE FOR CAPITALISM

WE are living in a capitalistic age. This fact is inescapable and incontrovertible. Strangely enough, this condition—so patent to all—has crept on us silently, unnoticed, and ignored. We have not debated its wisdom nor planned its coming, and now we just take it for granted. Even the foremost economists have failed to analyze and weigh its merits and defects. Gide, Cauwes, Marshall, Seligman, and Cassell silently pass over the word capitalism, in their standard treatises, scarcely mentioning it.

A strong case can be made out for the capitalistic order. We here marshal the most potent arguments in favor of the existing economic order, although we do not necessarily believe them valid.

#### WIDE ACCEPTANCE

To begin with, the system has won its way into almost every country in the world. No nation which has once accepted it has ever repudiated it, with the single possible exception of Russia, and she never had capitalism as we know it. In effect the system now prevails in six-sevenths of the world. The editor of the fourteenth edition of the "Encyclopedia Britannica" maintains that "it is the strongest pervading influence in the daily affairs of all civilized peoples." This fact alone should make us pause before condemning it. There must be some good reason why capitalism has won its way to such universal acceptance. The burden of proof rests on any individual or group who seek to overthrow it. Before we listen to these critics let us refresh our minds with what must be of necessity a brief summary of the case for capitalism.

## PRODUCTIVE CAPACITY

Its supporters claim that capitalism more than any other system produces things in abundance. Even its opponents have to admit its productive capacity. No one can deny that it is creative. A constant and never-ending variety of products testifies to that fact. Each day witnesses some new and improved technique, with uncanny power of increasing output or displacing manpower. Today, with the aid of modern agricultural machinery produced by capitalistic corporations using the methods of mass production, one farmer can in  $3\frac{1}{2}$  hours secure enough wheat to feed a man for an entire year. Twenty per cent or less of our labor force can produce the basic needs of food, shelter, and clothing for the entire nation. In theory 80 per cent of our productive forces can therefore be spent in supplying the other cultural wants of mankind. One reason for this is that under the present system capital can be accumulated to finance and establish gigantic industrial enterprises utilizing large-scale production.

## ABUNDANCE

Capitalism repudiates the theory of equal division of wealth. A story is told that following the Russian Revolution a peasant succeeded in acquiring a very large and beautiful mirror. In order to be true to the ideals of equality this mirror was finally shattered and the fragments divided among all the inhabitants of the village. Capitalism does not make this error. It shares by producing in greater quantity than ever before in history.

Perhaps a corollary of this productivity theory is that capitalism is on the whole the best system in the world and it is the best we are likely to get in the near future. Contrast conditions in the most advanced capitalistic countries with any others, not even excepting those in the Soviet Union; the results speak for themselves. Capitalism provides such creature comforts as automobiles, moving pictures, and clothing in abundance. In a word, the claim is made that even when material benefits for the masses of the people are taken as the standard, capitalism surpasses all other systems now in actual operation.

## FREEDOM OF ENTERPRISE

Another point in favor of capitalism is that just as democracy believes in freedom for the individual, so this system provides freedom for the individual entrepreneur. The individual is free to enter any economic pursuit which appeals to him. To be sure, capital is necessary for success, but this can be acquired in many different ways. If the individual is clever he may be able to float stock, or if he has successful friends he can borrow from the institutions of credit. A boy at Yale invents a new automotive signaling device. Another student immediately coöperates by securing the necessary capital to float the invention; through various forms of stock issue he wins wealth for himself—but in the meanwhile the signal device is being widely used. Incidentally, this also illustrates the fact that capitalism is a spur to invention.

## PSYCHOLOGICAL INEVITABILITY

The desire for selfish gain or profit is deep-rooted in the human heart, perhaps instinctive. Even where a factory is controlled by the workers themselves, thus becoming a producers' coöperative enterprise, it often becomes capitalistic. If it is very successful the original workers often cannot resist the temptation of keeping for themselves the great advantages won, instead of sharing them with the more recent employees. Capitalism thus fits the pattern of human nature as it is. It does not romanticize or daydream about idealistic utopias which cannot hope to survive in the practical give-and-take of the world.

## ARISTOCRATIC AND DEMOCRATIC

Again, it is said, capitalism is advantageous because the best man wins. In the struggle for survival in the competitive economic order the less efficient individual tends to be displaced. What we need in society is the rule of the wisest and best for the benefit of all. Modern competition is a method of sifting out those who are most gifted in furnishing society with the products which it wishes to use. Under capitalism increased income rewards the man who will use his talents to produce the most

cheaply. On the other hand, the man who misapplies his talents or his capital is in the end severely punished by the loss of his property.

Capitalism is also democratic. It is the votes of the consumers that always select the best product. Unless the public will buy the manufacturer must close his shop. Even in the case of a monopoly, such as that in anthracite coal, the consumer can usually make substitution of something else—perhaps oil. This places limits even to monopoly profit. In other branches of production the choice before the consumer is legion. Capitalism is so devised that as the manufacturer produces his goods in quantity, quality, and price so that he wins the consumer's dollar votes he tends to succeed commercially.

#### ELASTICITY

Capitalism has also maintained a fairly elastic system of production. Not only can it change its goods from cotton to silk if the consumer so votes, but it can increase its output enormously in response to demand. If, on the other hand, the demand slackens, plants can be shut down in short order. This elasticity might not be so possible under many other forms of production, particularly under socialism, because in the absence of effective competition the producing units could more easily ignore the consumers' preferences for new styles or new quality.

#### INEQUALITY

While it is universally recognized that under a capitalistic system there is bound to be inequality of wealth, it is argued that this inequity is unduly emphasized by the radicals. Human society is so constituted from its very nature and essence that even a Rockefeller or a Morgan cannot spend more than a certain amount on himself or his family. The amounts of food which can be consumed are strictly limited. The individual family may eat turkey every week; it can hardly consume a hundred turkeys a month. While an individual may have more than one home, the number of dwellings which even the most wealthy will want to maintain can be counted on the fingers of both hands.

Furthermore, nature itself keeps making a continual division and redivision of property. At best the life of the individual is brief—in the light of man's total history on the earth hardly more than a flash. As each individual is born, rises to maturity, and dies, his property is redistributed. Even if inheritance does conserve money to certain descendants it is likely to be soon dissipated unless these followers are reasonably wise and able. Because the man of wealth cannot take his money with him when he dies he is apt to dedicate his surplus to the social welfare of humanity. Society, therefore, is in the fortunate position of securing the services of able men as captains of finance and industry under the spur of the profit economy and yet cashing in on their surplus before or at their deaths.

There is much to be said for this system of inequality of wealth, because it promotes human welfare through charity and benefactions of all sorts. The great universities of America are nearly all the products of this accumulation and benefaction. The public libraries throughout the length and breadth of our land, the great hospitals, the art collections, and our finest churches are all made possible because of the wealth which individuals have amassed in our capitalistic civilization and then given freely to their fellow countrymen as the heritage of the ages. One has only to mention such names as Carnegie and Rockefeller to realize something of what their wealth has meant to mankind. Even a Henry Ford, who has not yet given his wealth to the people, has endeavored to cheapen the price and raise the quality of his product until in its class it has probably equaled or surpassed anything the world has ever seen in the locomotive field. The full flower of industrial and scientific progress has only come in the capitalistic epoch. This is not to be wondered at, because it is this system which has given every encouragement to scientific progress. It is this system which has set aside such colossal funds that they can provide endowments for educational, cultural, and scientific purposes running up into the hundreds of millions of dollars. No wonder that many believe capitalism has promoted culture more than any other system that the world has ever experienced.

## WORKERS' BENEFITS

It is often charged that in spite of its benefits capitalism has been a detriment to the worker. On the other side it is argued that we do not appreciate all that capitalism has actually done to make the world a more enjoyable and happy place for the workers. We still stand aghast at the terrible specter of unemployment, but it was always present in former epochs. Even such a devastating critic of capitalism as Sombart has had to admit, "The reality of mass poverty during all the centuries of early capitalism and in all European countries is attested by a sufficiency of proofs." In the eighteenth century Weber declared that "there were 260 beggars to every 1,000 inhabitants" in Germany. If this be true we must admit that even in a depression period there is less unemployment today than formerly. It is universally recognized that the workers are more healthy today than ever before. The great increase in world population attests the progress that the masses have been making in the field of health and sanitation.

Nor is it fair to say that the common workers have not been benefited. Those who are employed have higher wages, which will purchase more real goods than in any epoch since history began. The doctrine of increasing misery for all the workers seems hardly plausible to the supporters of capitalism. Not only does it pay high wages and share many of the comforts of life with the workers, but it is estimated that 10,000,000 workers in America in 1928 shared in stock ownership. Thus 10,000,000 workers had a potential claim in addition to their wages to some share in the profits of industry.

Perhaps the reader still remains unconvinced as to the benefits of capitalism. It must be admitted that the evils are real: crushing poverty, serious accidents, widespread old-age dependency, and bitter unemployment. The defenders of capitalism are ready with an answer. They claim the system can be reformed rather than annihilated. Society has not achieved the millennium. Of course, injustice is prevalent, but let us not, in order to abolish the barnyard, destroy the goose that lays the golden egg. Let us

lop off the abuses and regulate where that is necessary, but keep all the benefits.

In the United States President Hoover was once the leader in attempting to eliminate the wastes in our present capitalistic system. He believes that this can more readily be done within the capitalistic framework than under any other system—in other words, that capitalism can be controlled. He feels there is no sound reason why abuses cannot be curbed. Little by little he feels we shall improve the system until poverty shall be abolished and justice made secure. This apparently is what Ramsay MacDonald and the Conservative Party have been trying to do in England.

Actually we are constantly passing legislation protecting the worker in such matters as hours of labor, wages, accidents, and social insurance. While in theory capitalism believes that that government is best which governs least, in practice it will accept any amount of regulation and control which experience demonstrates is essential.

#### REFORM

No wise modern thinker would attempt to defend capitalism as it is. What is defended is a revised, a controlled, a reformed system—what Edward A. Filene calls “the newer capitalism.” This he defines as “large-scale production based upon a clear understanding that increased production demands increased buying.”<sup>1</sup> It is maintained that for selfish reasons genuine mass-production industries must make prices lower and lower and wages higher and higher. This must be done while the work day is being constantly shortened and while more and better products are being produced. Capitalism thus proposes in the future to establish an economy of high wages and shorter hours, together with a cheapened product. No longer will there be talk of a living wage, but of a cultural or citizenship wage as an indispensable part of the productive mechanism.

The latest and most sensational attempt to revise and reform the capitalistic system is, of course, that of the Roosevelt administration in its program of national economic readjustment.



The attempt is being made to have industry regulate itself with the aid of government supervision. Codes have been established setting up standards which all within a given industry must observe. The aim is to make all employers pay the highest wages to labor, sell their products at the lowest possible price, and accept the smallest possible margin of profits. So far as this program has been followed it means that capital has at last realized that *we cannot have mass production in this country without also having mass buying power*. The use of credit must be shifted from supplying increased productive facilities to supplying increased financing for *consumption*. Other measures which are being tried are to decrease rationally the production of agricultural products and thus raise prices. Edward A. Filene maintains that we must recognize that "man is a selfish animal." We must then "harness the selfishness of business leaders" and set them to work (through such measures as unemployment insurance, for instance) in banishing the present evils and thus improving our capitalistic system. All of this cannot be done overnight. Any reform administration, whether that of a Roosevelt, a Hitler, or a MacDonald, has found that the economic order is something which cannot be righted by executive fiat or even by drastic legislative action. It is a long, slow process stretching over the years.

Before we accept too uncritically this defense of capitalism, let us examine more carefully the nature of capitalism itself, its philosophy, and its actual workings in present-day society.

## CHAPTER III

### ITS PHILOSOPHY EXAMINED

THE defenses of capitalism sound plausible but are in a measure a series of rationalizations to justify the existing order. If this system had been that of an autocratic czar, or a form of fascism, or even slavery itself, its supporters would have used many of the same types of arguments. Go back over the literature prevalent under each of these forms of society—we find the same spurious attempts to rationalize in their defense.

#### MATERIALISM

The defenses of any form of economic organization can be little higher than the actualities of the fundamental philosophy which underlies it, and capitalism has a materialistic base. It is rather humorous to hear a staunch conservative inveigh against communism because it is materialistic, when in reality almost no system could be more materialistic than capitalism itself. For the latter accepts the principle that the goal of activity and individual happiness arises largely through the possession and consumption of things. Efforts to secure and use material goods are the bases of the system. Social ends and values are not important or are given mere lip service. The idea, for instance, that workers might prefer to have organized collective bargaining and a higher feeling of social worth and social mission, even if this might mean the enjoyment of fewer automobiles and moving pictures, hardly seems conceivable to many capitalists. Capitalism has a utilitarian standard of values but with reservations. The economic order is judged by its consequences, but not ordinarily to the greatest number. In actuality, capitalists are usually chiefly concerned with the welfare and happiness of the middle and upper classes, not necessarily with

those of the majority. Possession and consumption of things are the real goals. Liberty, freedom, equality, and other nontangible values are thought to be by-products in that struggle. To him that hath all things are added! The "good life" is interpreted as the "goods life"—the life that is abundantly supplied with material comforts.

It is not our purpose here to discuss at great length the philosophy underlying the capitalistic system. This is still largely virgin territory awaiting contemporary philosophers. The theoretical assumptions of capitalism, however, should be briefly considered before we pass to a discussion of how the system actually functions.

#### ASSUMPTIONS

The classical English economists—Ricardo, Adam Smith, John Stuart Mill—described an economic system operating within a rigid, almost immutable natural order. Economic laws operated exactly as the laws of physics. They were fixed and unchanging, and these pioneer economists thought they knew what they were. They assumed that roughly society was made up of a host of individuals, each seeking his own happiness and each knowing just in what that happiness consisted. Individuals were not fooled by spurious goods or deluded by deceptive advertising. The self-interest of the individual was a match for the wiles of dishonest merchants. In general it was assumed that each individual devoted himself to the work or the capital enterprise for which he was best fitted. Those who finally succeeded were those who rendered the greatest service for the least cost. The others, with higher costs, were forced into bankruptcy and so in the end the public gained. The people were intelligent enough to buy the very best articles and not stupid enough to be fooled by adulterated products or by fraud. Everyone received a just reward for his labor, since these things were regulated by the iron laws of competition and rent. The pressure of population kept wages at a reasonable figure, somewhere near the cost of subsistence. Any subtle attempts to control prices and wages, or to slip over inferior goods, were merely stones in the path

of natural law and would cause more injury than benefit to those who tried them. There was no necessity for the government to interfere because natural law took care of the result. In other words, a sort of unseen hand guided the selfish instincts of mankind until they subserved the welfare of all. It will be seen at once that this was not the social order in which human beings live, but rather the dream world of a theoretical capitalistic utopia which existed nowhere except in the imagination of its creators.

#### ACQUISITION

Perhaps we can get a fairer idea of the philosophy of capitalism by considering some of its basic assumptions. It is probable that it involves, among other things, the following:

First, individual right to private property for power, with a minimum of outside interference. We might summarize this norm by the single word *acquisition*. The individual is supposed to have the free right to acquire and hold as much property as he can get. There are almost no limits to the acquisitive instinct and society should throw as few restrictions as possible in its path. The man who acquires the most is the one who is supposed to have become the servant of all—that is, he heads the public utilities, the manufacturing establishments, and the banks. Apparently the theory does not recognize that what is one man's gain may be another man's pain. While the acquisitive spirit prospers all interference is decried. If a depression occurs or foreign competition begins to threaten, then, of course, the business interests are quite ready to ask for interference, provided it may help them to save their privileges and maintain their status.

#### INDIVIDUALISM

A second norm of capitalism is individual responsibility and individual achievement, which might be summarized as *individualism*. Popularly this has become known as "rugged individualism" in the United States. This norm has been generally discredited since 1929, as the business interests have more and more been forced to act together. Still, in theory, each business

man who has been successful prides himself that it was his own superior brand of "rugged individualism" which has made him succeed and that what America needs above all else is the perpetuation of the individualistic spirit. In reality "rugged individualism" was discarded in practice by the overwhelming majority of business men long ago. The national banking system, the chambers of commerce, and trade associations have long since demonstrated that the era of individualism has passed, even though business leaders may continue to use old habit patterns of thought and speech.

### COMPETITION

A third norm of capitalism is the beneficence of free competition. Adam Smith assumed that this was the "obvious and simple system of natural liberty."<sup>1</sup> If individuals strove for private profit and freely competed against each other, the public would buy from the one who sold the cheapest and best product. Hence selfishness was transmuted into public service. *Nation's Business*, official organ for the United States Chamber of Commerce, declares, "Our rulers will best promote the improvement of the nation . . . by leaving capital to find its most lucrative course, commodities their fair price, industry and intelligence their natural reward, idleness and folly their natural punishment."<sup>2</sup>

Accordingly, a corollary to the norms already mentioned was the philosophical assumption that "that government governs best which governs least." "More business in government and less government in business," was another version. Here again the philosophy was not adhered to if it interfered with the quest for profits. Tariffs, government subsidies, and government loans were, forsooth, merely the exceptions which proved the rule! Since the world depression this theory has been abandoned and today the governments in all countries are interfering more than ever before and usually at the request of business itself. Moreover, business has begun to realize the wastes of competition and their effect in reducing profits. It is therefore not unwilling to submit to governmental regulation, espe-

cially when that is largely in effect a matter of self-government of, by, and for the profit makers themselves. The theory of free competition is therefore now being attacked in many of the very strongholds of capitalism. For instance, Philip Cabot of the Harvard Graduate School of Business Administration says:

This much seems clear: the principle of free competition, so serviceable in the past, appears now to have developed vices which threaten to destroy us, for when competition is really free, planning for any considerable future period is a waste of time because the plans cannot be carried out. In short, freedom of competition under modern conditions means that the chaos in our industrial world will continue.<sup>3</sup>

Many people still believe that competition is "God's law of coöperation in a selfish world." Competition is supposed to result in the survival of the fittest. Who are the fittest? Are they the shrewdest? Are they the most aggressive, fighting type of individuals? May it not be true that competition as it has been conducted results in the selection of a certain type of exploitive individual who does not question closely the ethics of his particular practices? It can hardly be claimed that John D. Rockefeller, Senior, or Andrew Mellon, or some of the builders of our railroad empires, accumulated their vast fortunes by doing only that which was for the benefit of the mass of mankind. To some extent quite the reverse is true.

Competition, as Adam Smith and Ricardo formulated the doctrine and as it is still often taught today, has no application to an age of world division of labor, mass production, world markets and large fixed capital. The theory is purely hypothetical.

To be sure, there is much price cutting in the world of commerce; but this has no relation to Ricardian competition, since price cutting is destructive of capital and the death of profits—not the life of trade, as the antitrust acts and the courts assumed.

The two main hypotheses of the orthodox doctrine of competition are the complete mobility of capital and of labor. These were never true and industrial changes have made them less and less true during the entire past 150 years. It is assumed

that when two or more individuals seek the same market they will cut prices until a price is found that will carry off the available supply. It is assumed that at that price the most efficient will make a profit and all others will sell at a loss. When this point is reached the less efficient will transfer their capital and labor without loss into more promising fields. As a result every man and every dollar will be used in the most efficient way. Profits will be reduced to a minimum and will approach uniformity. The system is divinely automatic and beyond the will of man. Prices are at a minimum, no governmental control and no planning are necessary, and everybody lives happily.

It is easy to see the fallacy in all this economic theory. Under modern conditions new competing factories cannot start easily. The amount of capital necessary to make even a pretense of competition is ordinarily prohibitive. Furthermore, capital is not mobile today. It cannot be easily transferred from one field to another. When capital is once invested in a large plant it must stay there, devoted to that industry until it is worn out or until population and demand grow up to it. Occasionally new or modified products can be made, but imagine the woolen mills of Massachusetts attempting to manufacture automobiles, for instance. No; the capitalist largely survives or fails depending on what he does within the industry in which he has placed his money.

Formal bankruptcy does not remove the difficulty. In that case the plant is sold for much less than it cost and the new owner can then cut prices far below the cost for all other plants in the industry. Actually a company on the verge of bankruptcy is usually the worst price cutter and forgets all about costs. Sometimes it keeps cutting prices as long as it can pay operating expenses and, if it can raise the money, even beyond that, in the hope of driving out so-called competitors and through monopoly recouping its losses.

Edward A. Filene testified before a congressional committee in 1915 that actually a skillful buyer could purchase most of his goods at less than it cost to manufacture them.

All of which proves that America no longer has this competition except in textbooks and theoretical discussions.

Today, with the development of the modern factory and its vast capital investment, it is no longer possible to have free competition. Monopoly, special privilege, and group agreements have in part taken the place of the old competitive system. The competition which does exist is more likely to be between vast aggregations of corporate capital or between the workers and the owners. Competition is also closely related to freedom of contract and equal opportunity, which are two more of the basic assumptions of the capitalistic system.

#### CONTRACT

A fourth norm of capitalism is *freedom of contract*. Every individual is supposed to have the free right to make contracts. Each person can contract to sell property or to sell his services. This assumes, of course, that the individual is really free to sell his labor. Oftentimes this freedom is a mockery, as when some fifteen millions of the people are unemployed. Again, how much freedom to sell one's labor does the individual have in actuality if he belongs to a union in a coal-mining county and is black-listed by the operators? To the extent that natural resources are owned and controlled by the few, the many are no longer free to sell their services except on the terms of that privileged few. Freedom of contract thus becomes freedom to offer labor at the terms of the owners or freedom to starve or exist on such charity as can be secured if one refuses.

Capitalism does not hesitate to repudiate its contracts whenever it becomes profitable to do so. Consider American street-car history. As long as profits were large the owners pleaded the sacredness of their contracts on fares. Just as soon as the industry began to lose money the owners soft-pedaled their contract obligations and talked about justice and fair play to owners and workers.

#### OPPORTUNITY

A fifth norm of capitalism is *equal opportunity*. A few years ago, under the leadership of President Hoover, a good deal was



said about freedom of opportunity in America. It was assumed that all in America entered the race of life on equal terms and that in consequence the winners were the ones who had been willing most conscientiously to train for the race. A few moments' reflection will convince anyone that we do not any longer have equality of opportunity. In the early pioneer days of this country perhaps there was more than there is now, but even then the son of the plantation owner had a big head start. Today those who come from the middle or upper class have much more chance than those who come from the ranks of the poor. It is also questionable whether we want to give all an equal opportunity to pile up wealth for themselves. It seems probable that great accumulations of wealth are actually injurious to society at large.

#### PROFIT

A sixth norm of capitalism is self-interest or the profit motivation, which might be characterized as *money purpose*. This is undoubtedly the most important of all the norms of capitalism. Without it the capitalistic system falls. Foster and Catchings<sup>4</sup> state that profit is the very lifeblood of the existing economic order. Professor Scholz of the Wharton School of Finance and Commerce declares, "The fundamental assumption upon which *our capitalistic system* has been established, and which alone can justify its existence, is the belief that every man, being free to seek his personal gain in competition with his fellow men, will profit only inasmuch as he is able to serve *others* efficiently and effectively."<sup>5</sup>

It is clear that the profit motive does cause some service to be rendered; for example, automobiles have become reasonably cheap. On the other hand it is equally clear that it has caused us immeasurable harm. The preaching of selfishness as the heart of the economic order has brought our economic life to the verge of collapse. To some extent it has tended to lower all business behavior to the level of the most selfish. That it has not been able to do this is a tribute to the unselfishness of human nature, not to the efficacy of the profit motive.

A classic example of the deadly effect of the profit motive is that of the case of *Dodge vs. Ford*.<sup>6</sup> Ford was paying 60 per cent a year on the stock of the Ford Motor Company, besides having paid over \$40,000,000 in special dividends. He wanted to use part of the excess profits over 60 per cent to increase production facilities and employ more workers. Dodge, a minority stockholder controlling only 10 per cent of the shares, charged Ford with a humanitarian motive because he said, "My ambition is to employ still more men to spread the benefits of this industrial system to the greatest possible number, to help them build up their lives and their homes." Dodge also objected to a proposed \$80 reduction in the price of the Ford cars. The attorney for Henry Ford declared that in the long run his policy might be beneficial to the minority stockholders, for the public "would not stand for such excessive profits." Nevertheless, the court held that "a business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end." In other words, a manufacturer *cannot conduct his business so as to benefit society at large if he thereby reduces profits*.

It is small wonder that a recent writer on capitalism has declared, "Business is a competitive game of profit-seeking and not a coöperate way of promoting human welfare. Love of the game, love of activity, love of power and love of lucre, are the dominant motives in business enterprises. The driving force is human greed. The technique is human cunning."<sup>7</sup>

We will consider this profit motive more in detail in a later chapter, but any system based on such a philosophy can hardly square with the democratic or ethical ideal. Democracy certainly includes a moral purpose and a recognition of the worth of each human individual. Profit-motivated business is out for profits even at the expense of the individual citizen. In reality, as we shall show later, it actually increases insecurity, instability, gross contrasts in poverty and wealth, monotonous work relationships, monopoly control, and anarchistic competition. That such a philosophy should for so long have been accepted in

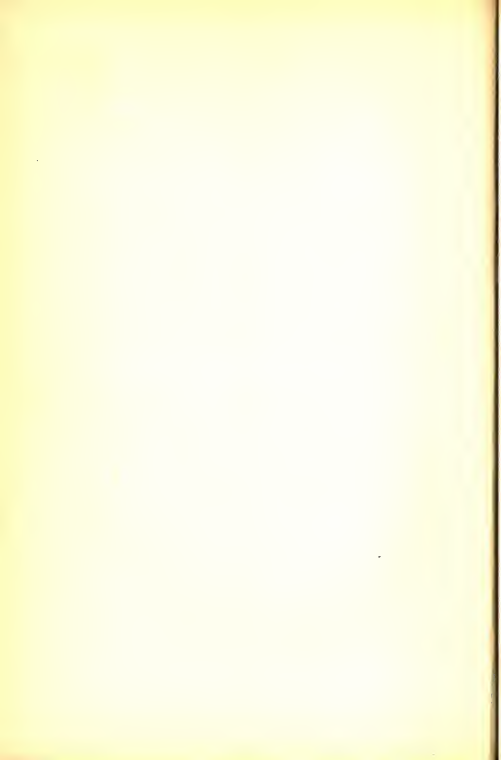
our western world is a strong proof of the unconscious molding influence of the going system on the thought life of its era.

There may have been a time when this philosophy was not so prejudicial to the social order. As we have noted, when American democracy was born we were confronted with a pioneer agricultural civilization offering land free to the taker. All business was conducted by small-scale units with meager capital. Natural resources were abundant and awaiting development. Everything produced could be consumed immediately. Much of the philosophy of capitalism at this time may have been inevitable and certainly helped to build up the country. Now all is changed, yet mental stereotypes remain the same. The fundamental stock of ideas and the philosophy of the economic order were built on the basis of this early pioneer agricultural era. It has little if any relevance to the economic order brought in by science and the machine. Vested habits of thought are one of the most dangerous forms of vested interest.

No matter how much Americans may rationalize in defense of the going capitalistic system, from an ethical standpoint any philosophy frankly based on profit and selfish acquisition is open to serious questions and certainly demands careful analysis.



*PART TWO*



## CHAPTER IV

### PRODUCTION

IMAGINE a magic kingdom in fairyland where there were unlimited quantities of things: gleaming automobiles, shining airplanes, and the thousands of other articles which could answer every remote desire. "If such a dreamland could only be true," one ponders, "what supreme happiness for the human race!"

This imaginary fairyland, however, is a reality. It is actually the very sphere on which we live. Scattered all over the world are natural resources which potentially can furnish us with a wealth of things beyond our wildest dreams. Consider what has happened in a single land.

#### CAPACITY

In a century and a half an adventurous acquisitive people have conquered the North American continent. Capitalism has succeeded in transforming natural resources into consumption goods in abundant measure—so much so that they clutter our warehouses. Under this benevolent and predatory capitalism, the wild turkey and the buffalo have given way to cultivated domestic stock. In a series of stages the old covered wagon has been abandoned in favor of the canal, the railroad, the automobile, and the airplane. Towns, cities, power plants, huge industrial empires, have been built. America has become the land of large-scale production of things. It turns out more goods than any other country in the world. With England it leads the capitalist procession.

In the course of its evolution unbelievably ingenious machines have become commonplace and new uses are continually being found for waste products. It is notorious that in the Chicago

packing plants every last vestige of the hog is utilized except his squeal. Even the fumes in cement mills are changed into potash salts. A considerable part of the power of the Ford works in England is supplied by incinerators which utilize the refuse from London as a fuel. Waste fruit in California is changed into a national drink for America.<sup>1</sup>

It is now known that if we used our production facilities to the full nearly every family in America could live according to the scale of material comforts which an income from \$10,000 to \$20,000 would have provided in 1929. Berle, a prominent member of the Roosevelt brain trust and city chamberlain of New York, maintains that every single worker could have the equivalent of a \$5,000 salary.

We face the following indisputable facts. Nature has provided us with vast natural resources free for the taking. Mankind has unlocked the secrets of the production process—the conversion of raw materials into finished goods to meet the manifold wants of the people. Why, then, do we not have happiness and abundance? Why are millions in poverty? Why do we have starvation, strikes, and class war?

#### MOTIVE

The secret of this amazing paradox lies chiefly in the capitalistic system. Its production process is carried on, strangely enough, not to produce things but to make *money profits*. The natural resources are not used for the benefit of all the people; they are the object of a mad scramble to secure monopoly control. Afterwards the products can be rationed out so as to bring the maximum possible wealth to the owners. Thus the key to the production process is *money purpose* and the first effect of this is a steady trend toward monopoly.

#### CONTROL

In the United States perhaps the most important natural resources (not including soil, vegetation and food products) are iron ore, other metals, coal, petroleum, forests, and water power. Since the beginnings of the American experiment these



resources have increasingly become concentrated into fewer and fewer hands. Deposits of iron ore are not unlimited in quantity and cannot be replaced once they have been used. It is believed that France and Great Britain have nearly half the world's supply, while the United States has some 47 per cent.<sup>2</sup> The United States Steel Corporation is easily the most important owner of iron-ore reserves in America. It is estimated it owns from one-half to more than three-fourths of the total reserves in North America.<sup>3</sup> In addition this corporation owns vast acres of coke and coal, gas land, and limestone and dolomite deposits. It thus easily dominates the iron and steel industry.

In the ownership of copper ore four companies control approximately one-half of the reserves. The Federal Trade Commission says that sixteen companies exercised combined control over 83 per cent of the estimated total reserve.<sup>4</sup> In the production of copper, again four companies produce 50 per cent of the output. In lead, four companies produce over one-half the total product.

The International Nickel Company of Canada controls 92 per cent of the known nickel resources in the world and has a virtual monopoly in its production. The Aluminum Company of America owns practically all the bauxite deposits in the United States and has a similar monopoly of domestic aluminum production.

All but (roughly) 5 per cent of the deposits of anthracite coal are centered within the state of Pennsylvania alone.<sup>5</sup> Nearly four-fifths of the Pennsylvania anthracite is owned or controlled by eight companies. Dr. H. W. Laidler estimates that three-fourths of the annual output of the coal mines is mined by eight railroad-controlled mining corporations.<sup>6</sup> In the bituminous coal field some thirty producers own over one-third of the total tonnage available for mining and produce roughly one-third of the annual output. Mammoth manufacturing trusts, like those in the automobile, the public-utility, the steel, and the railroad fields, own "captive" mines and do not sell coal to the public at all. They run these mines because they do not

care to be subject to the high costs of profit enterprises, which, of course, the common people have to pay.

When we turn to oil we find a large number of companies, but in actual production five companies now produce about one-third of the total amount. The Standard Oil group alone, in the refining of oil, controls about one-half the field.

In the matter of our forests ownership is more widely scattered. In 1913 the Bureau of Corporations tried to secure data regarding this. Their reports, received from about 80 per cent of the owners of private timber land, indicated that 45 per cent was owned by 195 companies. Each of these concerns controlled at least a billion or more board feet.

Since we have passed into a power age the control of water power is of tremendous importance. Laidler estimates that of the total water power in the United States nine companies control about one-fourth, while thirty-seven control two-fifths.<sup>7</sup>

#### CONSEQUENCE

This heavy concentration of natural resources is so serious as to threaten a fair price level for these products. We have already stated that in a capitalistic economy production is carried on for profit—*quick* profit and as large as possible. Anything which stands in the way must be brushed aside. Partly in consequence of this the wastage of natural resources is incredibly large. Many writers have not hesitated to describe this process in North America as the rape of a continent. No doubt much of the indictment is returnable against the pioneer development of a virgin territory, but some part remains over and is chargeable directly to capitalism. For the proportions the reader must judge for himself.

Naturally, a profit-motivated production process tends to block and thwart a rival nonprofit production process. As an example, consider *water power*.

#### CORRUPTION

We are living in a power age. Since 1899 the use of electricity in factories has grown sixty times over. Yet so far we have

utilized only about 15 per cent of our available water power. This means that about 85 per cent of the potential power of our streams and waterfalls is allowed to run to waste. Many of our states do not even permit municipalities to develop their own power plants without special authorization from the legislature. In New York authority has finally been granted to cities to undertake municipal ownership, but with many restrictions. One leader of the Republican Party claims that the legislature has been controlled by the power interests, while evidence published by the Federal Trade Commission showed that at least one member had been subservient to them. In a letter to Vice President McGee of the Associated Gas and Electric Company this senator, Warren T. Thayer, declared:

I hope my work during the past session was satisfactory to your company, not so much from the new legislation enacted but from the fact that many detrimental bills which were introduced we were able to kill in my committee.

In addition the Federal Trade Commission received evidence showing that Senator Thayer signed a contract to purchase 200 shares of a stock at \$150 a share and sell it to the Associated Gas and Electric Company at \$175 a share.\* It seems fair to charge to capitalism part of the delay in developing municipal utility systems.

Even when the federal government itself developed one of the largest power plants in the world at Muscle Shoals it was not utilized except in a very slight way for years. The dam was ready in 1925 but it was not until 1933 that the Congress finally authorized its effective use. The waste here is colossal. Much of the opposition can be traced to capitalistic interests opposing state ownership and operation. Finally, under the Tennessee Valley Authority, this power is being partially used, but even today that development is being hampered by profit-motivated special interests.

#### WASTE AND WANT

Every single horsepower of electricity developed saves ten tons of coal and releases about \$100 worth of coal cars on the

railroad for other use. F. G. Baum, a distinguished electrical engineer, estimates that if we planned a scientific superpower system in the United States we would save 200,000,000 tons of coal a year and reduce the useless haulage of coal on our railroads to such an extent that there would be a saving of one-quarter of all freight transportation. We would then have a completely electrified system and could set a half million men at other more productive occupations.<sup>9</sup> But the capitalistic production process is not particularly interested in the conservation of natural resources for the benefit of all the people. Capitalists prefer to skim the cream from coal, oil, and gas.

Capitalistic production also exploits the workers, nowhere more clearly shown than in the coal industry. In coal, unregulated competition has allowed us to produce from 40 to 50 per cent more than we can consume. One out of every three mines should be closed. Floyd W. Parsons, a distinguished engineer and editor, declares that of 500 competing companies in the central Pennsylvania fields alone, only 10 or 15 are needed. This has meant the demoralization of nearly 600,000 miners, who face a constant ebb and flow of work and unemployment.

For every ton of coal that is mined another ton is left in the ground in the shape of supporting pillars, thin seams, etc. As former President Van Hise of the University of Wisconsin says in his standard treatise on conservation, the operators wish to secure "the greatest amount of profit in the shortest possible time, rather than on the greatest ultimate recovery of the coal, and this attitude leads to much waste and loss that might be avoided."<sup>10</sup> The total wastes in the use of coal are so enormous that Ellsworth Huntington, of the research staff of Yale University, estimates that for every horsepower of heat developed from coal, twenty horsepower might have been secured.<sup>11</sup>


As long ago as 1885 a group of miners and operators got together in Pittsburgh and united in the following statement:

The widespread depression of business, the overproduction of coal, and the consequent severe competition have caused the capital invested to yield little or no profitable returns. The constant reductions of wages that

have lately taken place have afforded no relief to capital, and, indeed, have but tended to increase its embarrassments.

Following this indictment nothing was done and ruinous competitive fighting continued for fifty years more. War shot the price of coal up, but afterwards the industry was again utterly demoralized and the United States Coal Commission was called on to make a report in 1923 calling attention to the deplorable

CHART I

Days Lost and Days of Mine Operation in the Bituminous Coal Industry of the United States 

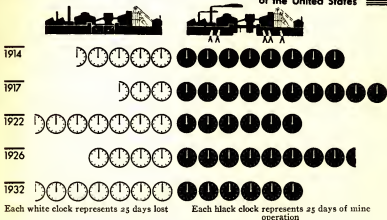


Chart by Mundaneum, Vienna—Dr. Otto Neurath, Director

conditions. Once more nothing was done with the recommendations of this report and, as can be seen on the chart, conditions remained chaotic.

By 1933 the coal industry was again in the throes of unemployment, destitution, and price cutting. Then came the National Industrial Recovery Act, but at the coal hearings in Washington the spokesmen of the operators refused to have any government control; neither would they recognize an independent trade union.

The Russell Sage Foundation made a fifteen-year intensive

study of the coal industry. In a report issued in 1934,<sup>12</sup> Miss Van Kleeck, the director, says:

No one challenges the facts regarding the mismanagement of the coal industry. Indeed the testimony brought out in the hearings on the coal code before the National Recovery Administration underscored once again all that had been said by official and private investigators in the past. The most cautious investigator appears now to be justified in drawing the conclusion that these evils are inherent in the system of separate private ownerships—that is, in the capitalist system. It is clear that these conflicting private owners in the coal industry in the United States have never given security and proper standards of living to the miners, conserved natural resources, nor provided for the domestic consumer a regular supply at a dependable price.

The coal industry of the United States is a badly functioning branch of production, with disastrous effects for workers and consumers.

The final recommendation is that "collective ownership and operation of all natural resources, as part of a planned economy, is the only solution." It must be remembered that this is not the conclusion of a radical socialistic group but of an executive of a private impartial foundation.

Gilbert and Pogue estimate the annual loss because of wasteful methods with coal as being at least \$2,000,000,000.<sup>13</sup> Not all of this can be charged to capitalism, but the Russell Sage study proves it to be responsible for a considerable share.

The wastes in coal can be duplicated in oil. On the average less than 25 per cent of oil in the ground reaches the pipe line. Oil could be scientifically mined so as to utilize nearly all of each underlying pool, but capitalistic private property customs prevent. Above each pool of oil are usually many competing property interests, all intent on getting the maximum amount of profit from the common pool. Consequently, useless wells are sunk, wasting hundreds of thousands of dollars, and all sorts of destructive methods of quick exploitation and development are common.

In the 960-acre Mexica oil field (Texas) alone 794 wells were drilled—254 unproductive ones and 300 additional which need not have been sunk to get out the maximum amount of oil.<sup>14</sup>

John R. Suman, vice president of the Humble Oil Company, in an address to the Petroleum Institute, estimated that in the east Texas field 13,000 wells have been drilled and ultimately 22,500 may be drilled, whereas 5,000 would have served far more efficiently to recover the oil. He declared that this represented for useless drilling in east Texas alone an initial expenditure of \$200,000,000, thus necessitating an annual unnecessary charge of \$2,000,000. Even more damaging is the final effect of this in overproduction and chaos for the entire industry.<sup>15</sup>

Professor Zimmerman declares, "The result is that there is evidently no end to the amount of capital which can be had for oil drilling purposes—the failure of nine does not deter the tenth from risking his last penny on the speculative venture."<sup>16</sup> Socialized production would stop most of this waste.

The private interests have been even more wasteful of gas, letting billions of cubic feet escape into the air. The Federal Oil Conservation Board has tried to prevent this. It cites the case of just two wells in California which, although they had produced about \$5,000,000 worth of oil and gas, had nevertheless permitted the escape into the air of a total of \$10,000,000 worth. The director of the Bureau of Mines declares:

We have been wasteful, careless and recklessly ignorant. We have abandoned fields while a large part of oil was still in the ground. We have allowed tremendous quantities of gas to waste in the air. We have let water into the oil sands, ruining acres that should have produced hundreds of thousands of barrels of oil.

In the mad rush for evanescent profits apparently we have not even been intelligent enough to get all the profits.

Capitalism has also encouraged vast overproduction of oil, storing the surplus in costly tanks where it evaporated or sometimes was accidentally fired. It was not until the federal government under Franklin Roosevelt began to regulate the industry that this was partially controlled. Even then vast quantities of "hot" or illegal oil were shipped.

The United States Forest Service estimates that in lumber "four-ninths of the annual cut could be saved." This means

about 10,000,000,000 cubic feet a year. Capitalistic interests have in the past again skimmed off the cream and left the rest. In spite of all that has been said and done about the conservation of our forests since the days of Theodore Roosevelt, we are still using up our forests four times as fast as they are being renewed.

Another form of capitalistic waste, an injurious by-product of production, is water and air pollution. We have permitted profit enterprises to make our cities ugly with coal soot while untold millions of dollars' worth of potential fertilizers, dye-stuffs, and chemicals go up in smoke. Frequently, manufacturing establishments, by discharging wastes into rivers and harbors, jeopardize the health of human beings and kill off valuable resources of fish. In Ohio the tin-plate industry has seriously affected the Ohio River. The Merrimac River from Manchester south is an open sewer.

Many other wastes are largely attributable to the capitalistic system. There is the production of useless, adulterated, and harmful goods for which demand is whipped up by profit addicts. There is the manufacture of trash, cross hauling, patent monopolies, tariffs, and other destructive policies. In addition consider all the patent medicines, superluxuries, and other questionable goods which are produced solely for profit. While some of these wastes may be eliminated many of them are inherent in and unavoidable under a capitalistic economy.

Probably a more serious waste still is that arising from idle manpower, which in the United States has averaged about 10 per cent of the total labor force and in a depression year such as 1932 may reach almost a third of all the workers. The exploitation of the workers and the consumers by the capitalistic system will be sketched in later chapters.

#### PROFIT VS. PROGRESS

Again, there is a terrific total wastage due to bad technical methods in production and due to the fact that there is no coördination between the output of any particular plant and the requirements of the public. It may actually be far more profitable to restrict production so that scarcity will be ac-



centuated and maximum profits secured, rather than to produce all that is really needed. Thus capitalism is dependent on maintaining an era of scarcity rather than abundance. Professor Zimmerman, for instance, after surveying the utilization of natural resources throughout the world, concludes:

As long as the maximization of profit remains the corner stone of acquisitive society and capitalistic economy, corporations will retain their interest in scarcity as a creator of economic value. Social welfare demands abundance, distributed justly and spread out over a longer time than even the most progressive and liberal corporation executive at present dares to consider.<sup>17</sup>

The old profit goal is still the policy of the manufacturers under the New Deal program. Under it there may be the highest efficiency in one individual concern, but the national industrial structure is unplanned, individualistic, and woefully inefficient.

No one knows how much better products might be produced were it not for the capitalistic system. It is well known, however, that certain manufacturing establishments have in the past bought up new inventions to prevent competition with the old standardized product. For the vested interests have sabotaged the new whenever it was to their private interest to do so. For example, in a hearing before the commissioner of interstate commerce, it was established that great numbers of patents were applied for to prevent the manufacture of useful devices. "There are thousands of patents lying dormant which have been acquired by established concerns whose business was threatened by competition."<sup>18</sup> So notorious has this become that the United States circuit court of appeals took cognizance of it in one case, declaring, "It is common knowledge that meritorious inventions are very often relegated to oblivion through machinations of well-entrenched and powerful competitors."<sup>19</sup>

Many of the largest corporations hold patents which they do not develop. This is true of such concerns as the American Bell Telephone Company, the American Steel and Wire Company, the American Tobacco Company, the General Electric Company, and the United Shoe Machinery Company. The social wastage

that results from all of this is incalculable. The American Telephone and Telegraph system alone could probably handle all of the telegraph communication service but is for one reason or another restrained from doing so. Naturally, under a competitive profit economy, the inventor does not reap the rewards of his effort. Thomas Edison once remarked, "There is absolute certainty that under your present patent laws the poor devil of an inventor would never receive any reward."<sup>20</sup>

Besides this there is the annual-model racket, changing styles so as to induce consumer demand. All of these concomitants of capitalistic production limit its efficiency.

### INEFFICIENCY

The capitalistic system prides itself on its efficiency, but actually its production process as a whole is highly inefficient. In the study of "Waste in Industry" by the Federated American Engineering Societies the following were declared to be the chief sources of waste.

1. Faulty material control—workers sitting around waiting for materials.
2. Faulty design control—lack of standardization of equipment and products.
3. Lack of production control—bad scheduling of work through the factory.
4. Lack of cost control—absence of cost accounting.
5. Lack of research—the present scarcity of technical research departments in factories; lack of statistical information on markets and demand.
6. Faulty labor-supply control—lack of personnel departments and consequent high labor turnover; excessive hiring and firing.
7. Ineffective workmanship—lack of vocational training, resulting in high spoilage factor.
8. Unemployment—cyclical, seasonal; including strikes and lockouts.
9. Idle material—deterioration and obsolescence of excess stocks.
10. Idle plant—failure to use plant and machinery to capacity, on balanced load basis.
11. Restriction of output by management.
12. Restriction of output by labor.
13. Preventable sickness.
14. Preventable accidents.

This study did not take a theoretical standard of comparison. It contrasted each factory with a model plant which was actually in operation. It concluded that there was a waste of anywhere from 50 to 350 per cent. In apportioning the blame for the wastage it came to the conclusion that an overwhelming percentage was due to the management, as can be seen in the following table:

Industry	Waste due to management, per cent	Waste due to labor, per cent	Waste due to outside causes, per cent	Total responsibility, per cent
Building trades .....	65	21	14	100
Boot and shoe .....	73	11	16	100
Metal trades .....	81	9	10	100
Printing .....	63	28	9	100
Men's clothing .....	75	16	9	100
Textiles .....	50	10	40	100

Some of the engineers who made this study for Mr. Hoover reported that undoubtedly the waste due to management was even higher than that recorded, but that the commission wished to be conservative in its statement.

In 1934 the Columbia University Commission on Economic Reconstruction sent a questionnaire to ninety-one prominent engineers and ninety-three industrial executives. Returns were received from 42 per cent of the engineers and 27 per cent of the executives. In answer to the question, "What per cent of increase could be effected by the industry reported if equipment and management were brought up to the level of the best current standard?" the mean estimate of the engineers was 90.1 per cent and of the executives 84.4 per cent.<sup>21</sup>

While profits are the goal it is better business to spend large sums in whipping up consumer demand and in hiring experts skilled in extracting profits from the public rather than in social economy or even scientific management. Furthermore, both management and owners are thinking of a relatively short-time cycle, usually only a few years, and rarely more than a lifetime. Conservation and social efficiency demand the century

point of view. To some extent, any product competes with all others for the consumer's dollars. If coal is too high-priced people will use oil. The manager of a factory is continually under pressure from owners who want profits. He believes that he will be discharged or displaced if he doesn't get the profits. He need not be concerned with what happens 25, 50, or 100 years in the future. His task is to secure profits—quick profits and as large as possible, now. If dividends are not maintained market prices will fall, and that is a calamity to be avoided. The author once went to a multimillionaire and suggested that each year he have a human audit made of his factories to determine what would be for the welfare of his employees. The millionaire replied that all his executives had been trained to think in terms of profits first, that they would resign if told to think first of the welfare of labor and of the public. He declared, "Most employers are so busy trying to achieve a financial success that they think they don't have time for any other side."<sup>22</sup> Thus it is that the wastes we have enumerated are in some form inevitable under a profit economy. To the extent that the profit motive is paramount, scarcity value is the end sought, yet from the standpoint of the public welfare this is costly and inefficient.

#### UNEARNED PROFITS

Thus far we have shown that capitalistic production tends to produce monopoly in natural resources, and wastage. Let us examine a bit more closely how the process itself is carried on. Natural resources are owned by a capitalistic organization and are manufactured into capital goods, that is, the equipment and machinery used in making things the people actually consume, which in turn are called consumption goods. The latter include such articles as food, clothing, shelter, necessities and luxuries.

Under pioneer conditions each family produced its own consumption goods. Capitalism revolutionized the conditions of production by bringing together thousands of workers under one roof and training them to operate machinery and work under its control. Pioneer life, where every family was a unit and produced its own necessities, was "rugged individualism."

Humorously enough, capitalism itself destroyed "rugged individualism" by taking the people away from these pioneering conditions and massing them into collective production centers called factories. It is a well-known fact that five individuals working together can accomplish more than five individuals working separately. The capitalists gained a tremendous surplus value by utilizing collective labor. Each individual could be trained for one process; his added skill would increase output and consequently the profits of the capitalist. Furthermore, factories in which 2,000 or more workers toil are cheaper proportionately to build than hundreds of small factories employing 10 each. In consequence of factory production and other changes mankind came to be increasingly an urban animal. This meant the demand for the factory product increased by leaps and bounds, but for every increase in demand the cost of manufacture was substantially cut. Overhead charges remained about the same even if a plant was working twenty-four hours a day; hence profits increased with demand. The capitalist was reaping an *unearned increment* which flowed from societal changes and not from his skill.

#### PROGRESS AND POVERTY

Production is a dynamic process which has been and is changing with incredible speed. Since Watt invented the steam engine in 1775 there has been an unending stream of inventions. Recall just a few: the locomotive, 1822; the steamboat, 1887; the dynamo, 1831; photography, 1839; the rotary press, 1847; the machine gun, 1861; the gas engine, 1866; dynamite, 1868; the telephone, 1876; the aluminum process, 1886; the motion-picture machine and the automobile, 1893; the airplane, 1896; the vacuum tube, 1906; television, 1927. The machine age has resulted in millions of mechanical slaves doing work for mankind, although chiefly for the owning class. Today a single worker in a factory will drive a \$10,000 machine; he is in effect controlling the energy of 3,000 horses. A 200,000-kilowatt turbine is in reality doing the work of 2,000,000 men. With every usable new invention the employer effects a saving; thus, through the years, there is an

*unearned decrement* of costs which accrues to the employers' advantage. In one of the large automobile plants a workman discovered a means of decreasing the amount of copper used in each car. The annual saving to the automobile company was over \$1,000,000 and the worker received \$3 a week increase in his pay envelope!

The result of all this is that capital is constantly utilizing new machines which require always fewer workers to operate. In a certain district in India, at one time, landowners irrigated their fields by hiring natives to pump water by foot power. Because of this work the entire native population managed to eke out a livelihood. When Europeans came into the district they introduced power pumps, with the result that thousands of natives died of starvation. Inventions under capitalism often also have an unfortunate effect on workers' lives. This is not to condemn machines. They are of incalculable benefit to humanity, but if the capitalist appropriates the advantages of decreased cost for his own benefit at the expense of the worker, even if in the end adjustments are made, the exploitive costs to the worker are incalculable and the *unearned decrement* to the capitalist is tremendous.

Arthur F. Burns in his study of "Production Trends in the United States since 1870," points out that production is steadily increasing year by year.<sup>23</sup> Professor Frederick C. Mills found that between 1919 and 1929 output per wage earner grew 43 per cent, that is, at the annual rate of 3.8 per cent. This is over twice as much as the rate from 1899 to 1914.<sup>24</sup>

Actually, fewer men working fewer hours can turn out more products than ever before. A worker who could produce 100 of a given unit in 1927 could produce 120 units five years later, and at this rate of increase would be turning out 160 units by 1940.

Technocracy, which had its little day in the public eye, at least called our attention to the tremendous displacement of men by machines under capitalism. To cite but a few concrete examples:

Production of bricks used to average 400 per man a day. A

modern brick-making machine has a capacity of 10,000 bricks per hour.<sup>25</sup>

In fifteen years the Buick Motor Company increased its production 1,400 per cent and its labor force only 10 per cent.

Machine loading in a coal mine displaces twenty-two out of twenty-four workers.<sup>25</sup>

A modern steamer such as the *California*, with three firemen running the valves and gauges, dispenses with 120 men—a shrinkage of almost unbelievable proportions.<sup>26</sup>

In incandescent lamp manufacture one man hour accomplishes as much as 9,000 man hours accomplished only so short a time past as 1914.<sup>27</sup>

The first matches were hand-dipped. Modern machines now dip a million sticks with each revolution of the machines.<sup>25</sup>

Modern shoe machines can sole 200 pairs of shoes with each revolution.

Now all this would be very creditable to capitalism were it not that along with increased production goes a terrific increase of unemployment and human misery. To prevent this, Sir Josiah Stamp of England even advocates a curb on invention.<sup>28</sup> The Technocrats, for all their faults, have produced some interesting charts which show the total effects. Let us examine those in steel. Production rises steadily until around 1907, then it breaks into a series of violent zigzags. Horsepower climbs steadily throughout. Employment rises slowly until, around 1920, it too begins to dip. The curve of man hours per unit of output starts at a high point and goes steadily down towards zero.<sup>29</sup> These data are in the main true for all the basic American industries.

A seven-year fact-finding study, recently concluded, covering 700 goods and 12,000,000,000 man hours of industrial productivity, confirms these findings.<sup>30</sup> Increased productivity per man hour in 1931 as compared with 1928 occurred in 88.2 per cent of the plants. In six automobile plants the productivity increased 40 per cent from 1927 to 1931. Because of these technological gains, if production should once again reach the 1929 peak, there would still be 7,000,000 unemployed. The corpora-

tions thus profit from new inventions at the expense of the workers.

Capitalism also gains by its system of vertical trusts. Increasingly, one corporation owns every process from the extraction of the raw products to the preparation of the finished article. The Ford Motor Company, for instance, mines its ore in its own mines and ships it in its own boats. If the ore arrives at the Fordson dock at eight on Monday morning, by seven thirty-five on Wednesday morning, less than two days later, it has been transformed into finished cars entirely ready for the dealer.

Capitalism has also been increasingly using scientific management or "rationalization" in the production process. This tends to speed up the worker and decreases costs.

Some of these devices, if they prove effective in increasing profits, are themselves capitalized. For example, the Bedaux system was incorporated in 1916 and by 1927 had been applied in 200 industrial plants involving over 150,000 workers. The Bedaux system is a device for increasing work and efficiency per worker in factories. The results of its application in 200 plants up to 1927 were an increase in production of 44 per cent, a reduction of labor costs by 20 per cent, and an increase of labor earnings by 15 per cent.<sup>31</sup>

It will be noted that even on the admission of the company itself production is increased 44 per cent and wages are not increased nearly as much as labor costs are reduced. This is a clear example of the advantage to the capitalist in such devices. Furthermore, the workers are frequently so speeded up that the one who cannot keep up the pace is discharged or his wages are so decreased that he voluntarily retires in favor of the quick worker. The result spells unemployment for many. In one plant in Connecticut which introduced the Bedaux system the management was working its men fifty-four hours a week. When asked if they could not afford under the Bedaux speed-up to reduce the hours to forty-eight since they were now turning out much more in that time than formerly in fifty-four hours, the management replied "Certainly we could, but why should



we? If we keep the workers on a fifty-four-hour week at the increased speed we will make still more profits."

During a depression speed-up and efficiency systems are often accelerated. Faced with decreasing profits, the employers lay off the less efficient workers and close down entirely the least efficient plants. C. A. Bliss, the executive secretary of the National Bureau of Economic Research, shows this in the following table:<sup>32</sup>

Production index	1929	1930	1931	1932	1933
Physical output of manufacturers .....	100	85	72	57	64
Factory employment ....	100	87	74	61	66
Output per employed wage earner .....	100	97	97	93	97
Hours per week worked..	100	93	87	77	76
Man hours .....	100	81	64	47	50
Output per man hour....	100	104	112	121	127

It will be noted that in the five-year period the rise in output per man hour increased 27 per cent.

Consider the effect of a technological development such as the stretch-out in the cotton textile industry. This is a "stretching-out of the weaver to tend more and more automatic looms." In the past specialization had consisted in subdividing processes and giving one worker a whole set of processes to do. Under the stretch-out the whole process of weaving was divided into functions and the functions assigned to different workers who together operated the looms. Thus, taking out the finished cloth, feeding the looms, and repairing breaks were all separated and assigned to different workers. The process illustrates beautifully how modern industry collectivizes the production process.

The Institute of Human Relations at Yale University, under the direction of E. D. Smith, has for some years been studying the effect of the stretch-out. The exploitation of the workers which has resulted is summarized in the words of the director:

In all of the mills investigated substantial demotion occurred. In many, serious unemployment was precipitated. In all, the weaver, while concen-

trating more than before upon skilled work, was reduced from a skilled craftsman who made his own decisions to a routine manipulator. Moreover, the looms paced the worker, and the number of looms per weaver was drastically increased.<sup>33</sup>

Thus we are in a period where *the basis of production is automatic machinery*.

No wonder millions of workers are unemployed. Natural resources, except water for drinking purposes, are not available at low enough prices to supply the mass of the people. At times a sufficient supply of food, clothing, and even comforts have been produced for all, but they have rarely reached the underprivileged. The one exception was during the World War when the government was providing the purchasing power. When we ask for the root of the difficulty we have to consider the productive machinery which mankind has created as well as its distributive mechanism.

#### PROFIT VS. USE

In a machine and power era no finished goods are possible without huge aggregations of capital to secure and set up the machine process. Organizations of producers are needed to turn the natural resources into the goods which the people finally use. Individualism as an important element has disappeared from industry. Industry is now carried on by *pools, corporations, gentlemen's agreements, trusts, combinations, and trade associations operating under codes with the antitrust acts suspended*.

The corporation princes of our era know full well that they are hired to produce not *use goods* for the many but *money profits* for the few. As Thorstein Veblen long ago so eloquently declared, twentieth-century technology has outgrown the eighteenth-century system of vested rights. It would be quite possible to increase production 1,000 or 5,000 per cent. Just one factory can now produce 10,000 automobile frames a day and in a year could probably produce enough for all the new cars in America. It will not do so because the profit system stands in the way. In reality the whole system of credit and corporation finance is a

system of make-believe, as we shall see in a later chapter. Meanwhile it is well to remember that the first commandment of the dominant price-and-profit economy is *produce for profit*. No matter what else is or is not done, in the long run *profits* must be made. This is the end purpose of the modern productive machine.

#### CORPORACY

The profit-production process cannot be understood without considering its standard unit, the corporation.

We are in a corporate era as we were once in a feudal era. Corporations, as Veblen once told us, are the master instruments of civilization. They are the typical business unit of the twentieth century. This is quite different from the situation a hundred years ago, when business was dominated in the main by single individuals or by small groups with capital limited to the personal wealth of those in control. Now, vast corporations aggregating thousands of workers and hundreds of millions of dollars in property are in control. For example, the United States Steel Corporation is an economic empire bounded by no geographical limit and stretching from the Atlantic to the Pacific. Rockefeller controls the Standard Oil group. His interest in the Standard Oil Company of Indiana alone gives him control of one-fifth of the total gasoline business of the country.

In the early days of America's development each individual, since he used his own property, would have tended to get the full value from its use. It is possible that then his desire for personal gain might have tended to make him use his factories efficiently. At the present time ownership in a corporation is diversified among hundreds if not thousands of owners, these owners being in many cases completely divorced from management or control. In the American Telephone and Telegraph Company, one of our greatest corporations, the largest owner has less than 1 per cent of the total. Yet so rapid has been the growth of this corporate system that we have hardly realized what has been happening. In 1800, corporations were only used for direct public services, such as turnpikes, bridges, and canals. Until

that year there were only 305 profit-seeking corporations in the United States, and of these 219 were operating in the field of turnpikes, bridges and canal companies.<sup>34</sup>

The Boston Manufacturing Company, a textile firm, was one of the earliest manufacturing companies to be corporately organized in 1813. It was originally owned by eleven stockholders. Within seventeen years ownership had become diversified to seventy-six stockholders, no one of whom owned more than  $8\frac{1}{2}$  per cent of the stock. The entire board of directors controlled only 22 per cent. The former owners had found it profitable to sell stock to the public, retaining enough for themselves to control the corporation. With the funds secured through sale to the public they organized new textile companies. This process of corporate ownership became so profitable that it spread like a network all over the United States and today dominates our country. In 1930, for instance, fourteen great railroad systems operated 86.6 per cent of the first-class mileage and 81.7 per cent of all mileage in the country.<sup>35</sup> It is obvious that corporations now control almost every field of our natural resources and of our production of finished goods, with the exception of agriculture and personal service. With this process has come greater and greater concentration and control in fewer and fewer hands. Berle and Means maintain that the American Telephone and Telegraph Company controls more wealth than is contained within the borders of twenty-one of the states of the Union.<sup>36</sup>

Of the stocks listed on the New York Exchange, 130 companies control more than 80 per cent of the assets of all the companies represented. The 200 largest, comprising 42 railroads, 52 public utility systems, and 106 industries, control roughly 50 per cent of all the nonbanking corporate assets in the United States.<sup>37</sup> This same 200 have 43.2 per cent of all the income. Since at least 78 per cent and probably more of American business wealth is corporate, and since the 200 largest corporations control 49 per cent, it is clear that they control 38 per cent of all the wealth in the United States. If farm land and residential real estate were included this figure would probably drop to about 22 per cent of the total national wealth. In 1909-1928 the annual growth of



the 200 largest corporations was 5.4 per cent, while the average for all corporations was only 2 per cent. If this rate of growth is maintained by the 200 largest units for twenty years, 80 per cent of all corporate wealth would be held by them and within forty years, assuming the same rate, practically all wealth would be absorbed by the 200 largest.

#### IRRESPONSIBLE CONTROL

We are therefore in an era which might be called *corpocracy*. The old competition is gone. We are now in an era of corporate production and corporate control. The corpocracy itself is controlled by a very few individuals. It is obvious that a corporation can be controlled (a) privately by those who own all the stock, (b) by those who own a majority of the stock, (c) by those who own a minority of the stock, (d) by the management, because of the peculiar relationship to the business which the management always has, and (e) by a minority through some legal device. At the present time very few corporations are privately controlled by those who own all the stock. Neither is there majority control. Control is usually now centered in the hands of a very small minority; that is, we have an autocracy within the corpocracy. This may be accomplished through the issue of nonvoting stock. For example, Dodge Brothers in 1925 was taken over by Dillon, Read and Company through an investment of less than \$2,250,000. Yet it controlled a \$130,000,000 corporation.

A second method is to control through a legal device, such as pyramiding stock ownership. This involves the owning of a majority of the stock of one corporation, which in turn holds the majority of the stock of another. This arrangement can be repeated as often as desired *ad infinitum*. By means of the issuance of bonds and nonvoting preferred stock men who own a fraction of 1 per cent of all the property can still control everything. The Van Sweringens, with an investment of \$20,000,000, control eight Class I railroads with combined assets of \$2,000,000,000. A diagram of the Associated Gas and Electric structure is shown on Chart II.<sup>37</sup> It consists of some twenty holding companies and requires 261 squares to chart the various companies

in the system. Its operating companies furnish electric and gas service to 1,122,167 customers in 3,000 communities in 26 states, the Philippines, and Canada. It started in 1907 with assets of \$1,200,000 and with no income, and on December 31, 1929, had assets in excess of \$641,820,000 and a net income for the year of \$34,648,000. Control of this vast production and distribution system had been secured by two men with the exceedingly small investment of \$10,000 and stock valued at \$90,000.<sup>38</sup>

In a third plan, voting stock can be issued to the favored few at a very low rate so that they can buy control of the corporation with a small investment. For example, in 1929 Cities Service Company sold to H. L. Doherty and Company 1,000,000 of a \$1 preferred stock. Each share entitled the owner to one vote. Yet the common stock which was issued to the public entitled the owner to only one-twentieth of a vote. Thus 27 per cent of all the votes could be cast by the \$1,000,000 investment of H. L. Doherty. Since the holders of the other shares of stock were widely scattered, this practically meant that H. L. Doherty controlled the company.

In a fourth plan the corporations are often controlled by means of a voting trust. Trust certificates are issued which give the inside group complete control. In actual practice today it is found that in most corporations only a small minority of the stock is needed to give working control. Individual stockholders usually cannot afford to fight a large stockholder. It is highly expensive to get proxies, and unless the business is seriously threatened no attempt is made to wrest control from a large minority owner. Where ownership is widely scattered in a large corporation it usually means that management has control in any case. This is certainly true where no individual owns as much as 1 per cent of the stock. For example, in the Pennsylvania Railroad the largest stockholder owns only 0.34 per cent. Not a single director or officer holds as much as 0.1 per cent, while the combined holdings of all the directors are probably less than 0.7 per cent.

In the 200 large corporations studied by Berle and Means, the control was vested as follows:<sup>39</sup>

Control	By number, percentage	By wealth, percentage
Receiver .....	1	Negligible
Private .....	6	4
Majority ownership .....	5	2
Minority .....	23	14
Legal device .....	21	22
Management .....	44	58
Total .....	100	100

Only 11 per cent of the companies and 6 per cent of the wealth are controlled by those owning half or more of the stock. It is therefore indisputable that in our present era of corpocracy we no longer have control by the owners. Ownership is ordinarily divested from control. Therefore we cannot be sure that those who manage or control a corporation will do so in the interests of the owners. If those who control a corporation are dominated by private profit and a desire to further their own interest, they can often profit best at the *expense* of the company. For example, if they can see that the company purchases certain products from a corporation which they control and own they may be able to make so much personally through this sale as to offset any small loss in dividends from the stock which they own. Berle and Means cite a number of instances where management has wrecked the company for the benefit of the insiders. These include the Chicago and Alton Railroad; the Pere Marquette Railroad; Chicago, Rock Island, and Pacific Railroad; New York, New Haven and Hartford Railroad; St. Louis and San Francisco Railroad.

Charles E. Mitchell, formerly chairman of the board of directors of the National City Bank, so speculated in his own bank stock that a group of minority stockholders brought suit in 1934, charging mismanagement. Testimony was given that while he told a stockholder he was not selling any stock in the bank but was buying all he could pay for, he was in reality selling 5,000 shares at a profit of \$655,726.<sup>40</sup>

The law, as developed in England and the United States, has tried to protect the real owners of a corporation, but Berle and



Means declare, "The entire history of corporation law shows that as soon as the common law develops a check on absolute management power granted by statute or contract, a clause has made its appearance in the charter attempting to negate such rights." Management is an inside position. It knows whether the corporation has run into exceptional good luck or whether it has met with reverses. Insiders can then sell or buy stock to their own advantage. In most of the states, including New York, it is held legal for directors to buy and sell their own securities, although Georgia and Kansas have ruled that it is illegal.

#### INDIVIDUALISM

The result of our corpocracy era is that the old theories of Adam Smith are totally inadequate for the changed situation. When he talked of enterprise he of course meant an organization where small owners aided by workers could do all the business. He never meant a stock corporation. In fact, Adam Smith repudiated and sounded the dangers of a stock corporation. He assumed that ownership and control would be combined. The old individual initiative no longer has the same place in a corporation. An army does not operate today on individual initiative; neither does a corporation. In an era of corpocracy competition is largely gone. Competition today is either largely absent, or else it is between large groups with millions of dollars at their disposal and thousands of workers.

#### PROFIT VS. QUALITY

It is extremely interesting also to note the difference in the quality of goods produced for the use of corporations themselves and those produced to sell to others. Corporations which are using a large amount of steel, brass, or electrical fixtures have tests made and usually purchase material that will last for a long period; the individual is left to make his purchases in the dark. There are no scientific tests because production is operated on a profit basis. The consumer usually is the sufferer. Thus we have a dual basis of production in the corpocracy: on the one hand, material of high quality for use by the corporation; on the other

hand, a tendency to inferior quality in goods sold to the individual.

#### PROFIT VS. NEED

Today our competing corporations do not plan production to meet the needs of all the people. During the war and afterwards the National Council for Defense made some studies which clearly showed the situation. For example, although the stock of woolen goods in the United States was low, yet at that very time 52 per cent of all the woolen mills were idle. The Council discovered that although there was a shortage of a million homes building operations were at a standstill. As things now stand various corporations have built up enormous plants which are capable by themselves of supplying all the needs of the American people. For instance, one rubber-tire concern could supply all the tires needed for the entire nation. The same is true in the automobile industry. No wonder automobile plants go bankrupt and others operate on intermittent schedules. Justice Brandeis (in a dissenting opinion) has said, "Increasingly doubt is expressed whether it is economically wise, or morally right, that men should be permitted to add to the producing facilities of an industry which is already suffering from overcapacity."<sup>41</sup> Brandeis was overruled; under capitalism production cannot be controlled. In boom times a profit economy accelerates production; in a period of depression it goes on strike unless profits are available. Thus capitalistic production suffers from intermittent chills and fevers. The disease cannot be cured, for the carrier germ is the profit urge which cannot be eliminated without killing capitalism itself.

One could run through all the basic natural resources and show that at the present time, with the possible exception of water power, we have facilities for producing far more products than the country really needs. With this tremendous production possibility the plants lie idle and the people lack the finished products which they are capable of producing. The difficulties of changing this under a profit economy are enormous.

Recently we have witnessed the spectacle of the burning of products, of plowing under cotton, of the destruction of hogs,

in the face of a world which needed these goods. This was done for the laudable purpose of increasing prices for the impoverished farmers, but it is mute testimony to the tragic failure of the present system. During the depression of 1920 thousands of gallons of milk were poured into the rivers and creeks of southern Illinois. The same year a trainload of watermelons was dumped into the Potomac River to avoid lowering the price. For nearly two years coffee has been burned in the fire boxes of Brazilian locomotives and thousands of tons have been dumped into the sea—all to bring back the price of coffee to a profitable figure. American farmers are now curtailing production on a national scale.

Under a profit economy there is a fundamental and irreconcilable conflict between production for profit and production for use. While it is freely granted that in a period of prosperity the profit incentive turns out the goods, it must be recognized that the executives and managers of corporations sabotage the entire production process as soon as we enter a period of depression. While America opposes sabotage on the part of the workers it has not condemned the destruction of finished goods by producers who wish to keep prices high. Fundamentally, from a social standpoint, why is one form of sabotage any more necessary than the other?

#### BY WAY OF SUMMARY

Americans sometimes pride themselves on the productive capacity of the capitalistic economic machine. The actualities of the recurring depression periods prove it is highly inefficient from a human standpoint. We have also shown that its wastage of natural resources is incalculable. It is not here contended that no industry can ever be run wisely by private initiative. It seems probable that capitalism was an inevitable stage in the development of human evolution, but this does not mean that production must forever be capitalistic. Industry should not be placed in any one kind of straitjacket.

Suppose a desert island where a few wealthy individuals gain control ("legal title") to nearly all the raw supplies. Assume they

hire the rest of the population to work in factories to make finished products, paying high salaries to the men at the top and low salaries to those at the bottom, and keeping some 7 to 10 per cent of the able-bodied idle on a dole system. Assume they keep products scarce and sell them at a profit to all the people who can buy with the wages they receive. Part of the profits in gold accruing to the wealthy are buried in safety boxes in caves, part are used to build more factories whose products the people cannot buy except on credit, and part are sent away as loans to foreign ships which occasionally visit the island. The inhabitants may laud the wealthy as wise and generous, but the mass of the people will remain poor.

Now suppose the wealthy finally build so many factories that their warehouses are jammed with goods. The poor cannot purchase and the factories lie idle. If the wealthy would permit it, the people could run the factories and produce all they needed of everything, but if this were done the scarcity value of products would disappear and the wealthy could no longer exact a scarcity tribute for them. Instead, therefore, the people suffer and starve and the factories remain idle.

The illustration is simplified a thousand times over; nevertheless, how different is that society from our own?

The system of private production for profit is so at variance with the needs of an age of plenty that it threatens us with disaster. Under this system production can never be for the good of the entire community. It rests on the autocracy of groups of owners and managers who are recalcitrant toward control. Of necessity production and consumption cannot be balanced, for profits will be sluiced off into the pockets of the owners, who will tend to over-increase production facilities while consumers lack purchasing power.

Can it be that in the large the history of capitalistic production is consciously or unconsciously an effort to get special privilege for the few at the expense of the many, while retaining social power, prestige, and patriotism into the bargain?

## CHAPTER V

### FINANCE AND THE BANKERS

FINANCE is the very lifeblood of the capitalistic system. All over the world, and especially in America, are corporations which are constantly in need of money. Every new machine process, every large expansion in production, demands new capital. Sometimes this can be taken from surplus earnings; more often the corporation borrows the money, either directly from a bank or by issuing stocks or bonds.

Under capitalism the American people have been taught to save. If the individual saves he must normally place his money in a bank, in an insurance company, in a building and loan association, or use it to purchase stock certificates and bonds. Whichever process the individual follows, in the end a good share of his money is generally used by some corporation. In 1921, 42 per cent of national-bank assets were in securities or were being used as loans on securities. By 1929 this had increased to 54 per cent. Life insurance companies had 34 per cent of their assets invested in bonds and 3 per cent in stocks.<sup>1</sup>

#### MAKING CREDIT

The banks are essentially manufacturers of credit currency. They first obtain money from their stockholders and depositors. They then manufacture credit by making loans and discounts to their customers. Bank deposits are often little more than loans extended to depositors by the bank.

For instance, a business man may go to a bank for a loan of \$50,000. He signs a note and gives other collateral security if that is demanded. The bank then gives him a credit of \$50,000, less any discount which it may impose. The bank can now send his note to the Federal Reserve Bank and in return get credit.

It can then turn around and make further loans. Ten dollars in deposits can furnish the foundation for one hundred dollars of credit. The bank invests its depositors' money in bonds, commercial paper, mortgages, and many different kinds of loans.

It can thus be seen that the bankers have a monopoly of credit. They collect a tribute from the people, using the people's own credit. Even when the United States needs money in a depression era it floats loans through the banks. It consequently pays interest to a private organization for the use of its own national credit. During the depression of the 1930's in the United States, the government not only secured money through the banks, paying for the privilege, but it then used a part of this credit to aid the same private banking institutions. If the banking and credit system were nationalized this queer procedure would be unnecessary.

Senator Cutting describes the present situation vividly when he says, "Actually the government is getting itself into debt to the banks for the privilege of helping them to regain their stranglehold on the economic life of the country."<sup>2</sup>

#### TAKING CASH

Today, if a corporation wishes to raise money, it often goes to the *investment bankers*. Of these there are three kinds: wholesalers, retailers, and dealers. J. P. Morgan and Company and Kuhn, Loeb and Company are the only real wholesalers in the United States, and even the former occasionally has peddled out special stocks to a select list of favored friends. In 1929 \$11,000,000,000 of new securities were issued to the American public. Since the investment bankers are also in business *for profit* and frequently control the corporations for whom they are ostensibly putting out stock, they naturally extract their pound of flesh in the process.

For a long time the standard treatises on corporation finance have been full of the questionable practices which have been used in the organization of capitalistic corporations. As far back as 1905 Professor William Z. Ripley published a symposium on "Trusts, Pools and Corporations," which cited "chapter and

verse" in regard to the practices which were current at that time. When the author was in the university in 1911 he was assigned a standard text on "American Corporations"<sup>3</sup> which was replete with concrete examples. One brief statement on the Standard Oil Company and a court decision is illuminating in view of the company's present standing, and it must be remembered that even then the banker was playing his part in the monopoly.

The Standard Oil Company, a corporation organized under Ohio laws, entered into a trust agreement with a number of other oil refining companies. The purpose of this agreement was to form a monopoly and thereby throttle competition. The State of Ohio, by its Attorney General, sued out a writ of *quo warranto* to dissolve the Standard Oil Company, on the ground that it had abused its corporate franchises by becoming a party to an agreement against public policy. *Held*, the corporation should be dissolved.

These practices are part and parcel of the capitalistic system. They cannot be legislated out of existence, for the profit drive will always find new techniques to achieve the same results unless the system itself is changed. In 1929 the practices were worse than in 1910.

The United States learned the technique of extracting money from the people during the Liberty Loan drives. The bankers and financiers used this technique to great advantage in the period following the war down to 1929. The result was that money was drained off into all sorts of worthless investments instead of being spent for consumption. The story is told by one of the salesmen for the securities of the National City Bank who accepted at their face value the official letters of the bank regarding securities, borrowed thousands of dollars of his own money and then sold bonds to all his friends. He was first sent to a bond school by the bank, where he was taught that securities were sold the same as all other things from shoes to washtubs. One of the speakers spoke of Jesus "as one of the Great Salesmen of all time and drew an analogy between his organization of twelve Disciples and a Modern Sales Organization."<sup>4</sup>

After graduation this salesman was sent to Alabama. Fortu-

nately he kept copies of the circulars which the bank sent to him about the bonds he was to sell. The president sent out letters in which he urged the sale of what he termed "a sound and conservative investment stock," and "puffed" it to the skies. Later, of course, the stock fell from 130 to 23. No wonder that after the salesman lost his job he declared, "We pumped up this country like a balloon and with the same thing—air. The New Era bankers with all their innovations were the boys who supervised the crew that ran the pumps." <sup>5</sup>

The exact way in which the system works today is nowhere better portrayed than in the testimony given before the Senate Committee on Banking and the Currency in 1933 and 1934. In fact, if a reader goes through these volumes with an alert mind, he will find them more fascinating than a detective story and the plot is sometimes as carefully hidden. Nor can it be charged that the methods portrayed in these volumes are the worst to be found in America, because they describe what our "best" bankers and financiers are doing; the testimony is given by the leaders, from J. Pierpont Morgan down.

#### FINANCE IN FOOD

Let us begin with a man by the name of Birdseye, who discovered that when a live fish is frozen very suddenly in a block of ice and as quickly unfrozen the fish is preserved without the slightest damage. This discovery was immediately patented. The General Foods Company is reported to have developed this process at a total cost of about \$1,750,000. Now, the Goldman-Sachs Trading Corporation, an investment trust, the creation of investment bankers, had taken millions of dollars from investors and was waiting for profitable opportunities of using its money. It decided to join with the Postum Company in purchasing this invention, not for \$2,000,000 but for \$23,500,000. Goldman-Sachs put up \$12,750,000 and agreed to purchase 150,000 shares of the Postum Company for \$10,750,000. This money the Postum Company used as their part of the total required sum. One would suppose that since Goldman-Sachs put up all the actual cash, they would have had a majority control of the new company;



on the contrary, the Postum Company was given a 51 per cent interest, besides having certain preferences in regard to dividends.

Now, of course, since the General Foods Company had spent only \$1,750,000 for this process and had sold it for \$23,500,000, there was a large profit involved which would normally mean high taxes to the United States government. The corporation and its financiers, however, had no intention of paying anything if it could be avoided, so they used the following device.

The General Foods Company organized in Canada a United Foods Company, Ltd., to which it turned over the stock of the General Foods Company. Next it organized the United Foods Company of Delaware. Finally the Postum Company and the Goldman-Sachs Company organized the Frosted Foods Company. It was to this latter company that Postum and Goldman-Sachs paid their check for \$23,500,000. The Frosted Foods Company did not deposit its check, but instead sent it to the United Foods Company of Canada, which in turn sent it back to the United States to the United Foods Company of Delaware. Even then the check was not deposited in the bank; it later turned up in the offices of J. P. Morgan and Company in New York. By this intricate process the federal government lost its taxes, for in Canada a corporation does not have to enter on its books what it pays for an article but only its market value. Since the Canadian corporation sold this process for \$23,500,000 it established the market value at that price and it did not have to show any profit and hence paid no taxes. There is no record of the number of American capitalists who have established Canadian corporations in recent years, but Mr. Wiggin, formerly head of the Chase National Bank, himself had three.

In the illustration we have just sketched,<sup>6</sup> the stockholders in the General Foods Company made an enormous profit of over \$21,000,000. The United States government lost any taxes from the sale. What was the final result to the Goldman-Sachs stockholders? The Postum stock was sold for a loss of \$230,000. The Frosted Food stock was sold to the Postum Company for \$900,000, a loss of \$11,850,000. It will be noted that over \$23,000,000 had

been easily raised from the American public and that it was the people who in the end were left holding the bag.

#### FINANCE IN BUILDING

Let us take another example of the attempt to put up a building in New York City. Some men got together and decided to make a profit by putting up a building in Forty-second Street in the heart of the metropolitan district.

They could get the land for \$11,000,000 and the building itself would cost some \$13,000,000 more. Frederick Ecker, president of the Metropolitan Life Insurance Company, protested against the deal. Two directors of the Chase National Bank also believed the project not sound financially. One of these consulted a leading engineering firm on the advisability of the project if the land could be procured for from \$7,000,000 to \$8,000,000. The engineering firm reported the land was not worth even that amount, although actually \$11,000,000 was paid for it. Under a profit economy the "productive" organizers were encouraged to take undue gambling chances because they hoped to get inside profits.

Notice the exact details of the financing of this building. There were 600,000 shares of common stock, which were given away. The first-mortgage bonds were sold for \$16,000,000 to the public, who received 110,000 shares of common stock in addition. The second-mortgage bonds were sold for \$5,500,000 to the public, who also received a bonus of 55,000 shares of common stock. The preferred stock was sold to the organizers, who put in \$3,150,000 and received as a bonus 435,000 shares of common stock. It will be noted that the insiders received nearly all the velvet and that in spite of the inflated cost of the land the property was mortgaged up to 86 per cent of its total cost.

When, after construction, the inevitable happened and the first-mortgage holders had to foreclose, the highest outside bid they could secure was only \$4,500,000 for the entire property. The bondholders themselves then bought it in for more than this. In other words, the stock and the second mortgage were completely wiped out and the first-mortgage holders had a realizable investment of only about one-quarter of what they had put in.

Before this happened the organizers had arranged to have the first-mortgage bonds put on the official list as being legal for purchase by trust funds so that they could be sold to the traditional "widows and orphans." When the crash came the original group of organizers named the protective committee.<sup>7</sup>

This, of course, is not necessarily typical of building promotion plans in general, but it is illustrative of what is done by some of our prominent business leaders. In this illustration the organizers were associated with the Chase banking interests. But let us turn to the firm that is supposedly the most conservative and prominent banking house in America.

#### FINANCE IN RAILROADS

J. P. Morgan and Company participated in the floating of the Alleghany Corporation for the Van Sweringens in a way that left the permanent holders of the securities with greatly lessened values. Possibly the method by which this corporation was organized is somewhat typical of modern corporation finance.

The Van Sweringen brothers wished to accumulate railroad stock to establish a trunk-line system. They set out to raise \$130,000,000. Of this, \$35,000,000 was raised through debentures, \$25,000,000 through preferred stock, and \$70,000,000 through the sale of common stock. The bonds were sold publicly by J. P. Morgan and Company; the preferred stock was sold publicly by Lee Higginson and Company; the common stock was sold privately. The total amount of common stock was 3,500,000 shares. The Morgan firm took 1,250,000 shares at \$20 each, paying in \$25,000,000 in cash. The Van Sweringens were supposed to take 2,250,000 shares at \$20, but actually paid \$13 a share and did not pay that in cash but in securities.

The 2,250,000 shares of common stock which were taken by the Van Sweringens went to the General Security Corporation, a Van Sweringen concern, to pay for their holdings of Chesapeake Corporation and Nickel Plate Railroad stock. This stock, priced at \$30,000,000, was exchanged for Alleghany stock worth \$45,000,000. Some other stock was sold by the Van Sweringens to the Alleghany Corporation. After all this, \$46,000,000 in cash

was left in the Alleghany Corporation. In other words, the stock issue which was alleged to raise \$130,000,000 yielded \$85,000,000 in cash, raised as follows: \$35,000,000 from the bonds; \$25,000,000 from preferred stock; \$25,000,000 in cash from Morgan.

However, there actually was in the treasury of the Alleghany Corporation only the \$46,000,000 in cash. The Van Sweringens had secured \$39,000,000 in cash and 2,250,000 shares of stock, worth at the market about \$69,750,000. All of this the Van Sweringens had secured for about \$44,000,000 worth of railroad stock, although they publicly appraised the stock at \$84,000,000. By the sale of the bonds to the public the Morgan company had made a profit of \$2,425,000, less their expenses. The real profit of the Morgan firm came from the individual holdings of the common stock, of which the Morgan firm had over 356,000 shares. Of this J. Pierpont Morgan's stock account alone held 175,000 shares, while another 40,000 shares was listed for J. P. Morgan. Thomas W. Lamont got 18,000 shares.

It will be remembered that these partners got their stock for \$20 a share. As soon as the stock was listed it sold during the next month from \$31 to \$37 and then went up to \$50. One of the Morgan partners sold almost all his holdings at \$48 a share. Other sales were made for \$32. If \$32 was the average price secured on their stock by the Morgan partners they made a profit in this one transaction of \$4,274,400.

The Morgan firm also used the opportunity to secure the goodwill of a large number of prominent people in the United States by giving them an opportunity to buy additional common stock at prices below the market. These included the American ambassador in London, the chairmen of the Democratic and Republican National Committees, United States senators, cabinet officers, an ex-president of the United States, and executive officers of corporations; it is obvious that if favors of this kind are extended to the latter they may be more inclined to deposit the funds of their firms with J. P. Morgan and Company.

It must be realized that the common investors in Alleghany stock paid from \$31 to \$50 per share without knowing that the stock had been privately sold at \$20. Actually, only 50 to 75 per

cent of the money they paid went into the treasury of the corporation whose stock they were buying. In 1935 the stock was currently quoted around \$1.50 a share. Again the public was left holding the bag.<sup>8</sup> Later Mr. Van Sweringen testified that in building up the huge railroad empire, costing hundreds of millions of dollars, the Van Sweringens had invested only about a million dollars of their own and their associates' money.<sup>9</sup>

#### FINANCE AND MANAGEMENT

Under a profit economy it is natural that all concerned should be working to secure the maximum amount of compensation. It is perhaps inevitable, therefore, that executives and bankers should seek wherever possible to increase their salaries. Yet this may also affect the returns to stockholders. The New York Edison Company, while discharging employees, increased the salaries of the principal officers from \$149,000 in 1931 to \$230,000 in 1932, an increase of 70 per cent. During the same period they cut wages by \$1,300,000 and maintained 12 per cent dividends.<sup>10</sup>

President Hill of the American Tobacco Company in 1930 received a salary of \$168,000 plus a "special cash credit" of \$270,000, a cash bonus of \$840,000, and a profit from stock allotments of 13,440 shares of common at \$25 (although it was quoted at \$112). This stock deal alone gave him \$1,169,280. This makes a total of \$2,500,000. Five vice presidents received aggregate annual salaries and bonuses of over \$2,077,000, and through stock subscription got \$1,451,595.

Sixteen directors got stock benefits of \$1,646,910. It is obvious that this form of individual financing affected the stockholders' interest. Some of them brought suit<sup>11</sup> but the majority of the United States Supreme Court refused jurisdiction, although in their dissenting opinion Justices Stone and Brandeis said of these officials:

The stockholders did not consent that they should be the chief beneficiaries of their own unrestrained munificence, or that they should add any new bounties to the unrevealed stock allotments which the directors had previously enjoyed in secrecy.

Charles E. Mitchell of the National City Bank of New York was paid \$3,500,000 in bonuses in three years, in addition to a salary of \$25,000 a year. The stockholders brought suit, charging mismanagement. Mitchell testified that his enormous bonuses were valuable because they increased the morale of the younger men in the organization. On cross-examination the counsel for the stockholders asked Mitchell the following question: "When you told us yesterday that the young men in your organization were aided in their morale because of your one-million-dollar emolument, you didn't mean that they knew you actually received this figure?" "No, I did not," replied Mitchell.

Mr. Wiggin of the Chase National Bank received \$175,000 in salary in 1928; \$218,750 in 1930; \$250,000 in 1931; and \$220,300 in 1932. He also received a bonus of \$100,000 in 1928, \$100,000 in 1929, and \$75,000 in 1930. He received in addition \$75,000 in 1930 as an executive officer of the Chase Securities Corporation, affiliated with the bank. He was serving as director in fifty-nine corporations, from some of which he received additional compensation. For instance, the American Locomotive Company paid him \$300 a month; the American Sugar Refining Company, \$300 a month; Armour and Company paid him \$40,000 a year at one time and at another \$1,000 a month; the American Express company paid him \$3,000; the Brooklyn-Manhattan Transit Corporation paid him \$20,000 a year; the International Paper Company gave him a small salary, probably \$2,000; Stone and Webster gave him \$1,500; Underwood-Elliott-Fisher, \$2,000 a year; Western Union Telegraph approximately \$3,000 a year, and the Finance Company of Great Britain and America formerly paid him \$5,000 annually.<sup>12</sup> It was Mr. Wiggin who, as chairman of the governing board of the Chase National Bank, on January 13, 1931, urged that the time had come to ask labor to accept *reductions* in wages, although he himself was receiving an increase.<sup>13</sup>

The salaries mentioned were being paid to a leading banker in the United States. There has been a tendency under the profit motive for the smaller banks similarly to boost their own salaries so far as they could.

So widely prevalent was this increase in salaries and bonuses while the workers were being laid off that the Reconstruction Finance Corporation was finally forced to issue a rule that executives must reduce their salaries, or prove they were not excessive, before getting any loans. In the case of the Southern Pacific Company, before approving its request for a loan of \$23,300,000 the salaries of the executives of the company were ordered reduced by from 10 to 60 per cent.<sup>14</sup>

In almost any form of financing the corporations must either turn to the promotion companies or to the bankers. The banks themselves are run for profit so they in their turn must extract profits in the process. Sometimes the bankers may find it desirable to make special inducements to individual executives. For instance, when J. P. Morgan and Company wished to purchase 50,000 shares of Columbia Gas and Electric Corporation, the president of the company, Mr. Gossler, stipulated that he should be allowed to purchase 5,000 shares of common stock of the United Corporation at \$25 per share. This gave him the stock at a total price of \$150,000 below the market value of the shares on that day.<sup>15</sup>

On the other hand, officers and directors of the National City Bank were "allotted" stock in United Aircraft and Transport at substantial discounts from the market price. Joseph P. Ripley, executive vice president of the National City Company, made a profit of \$67,501.88 within six weeks after securing his stock. Apparently it pays for certain corporations to give favors to bankers, as well as for the bankers to give favors to certain corporation executives.<sup>16</sup>

#### FINANCE AND ACCOUNTING

The banks in their turn issue stock to the public and are continually pressed to pay as high dividends as possible. The Guardian-Detroit-Union group of banks had a deficit of \$39,000 in 1930, \$288,000 in 1931, and one still larger in 1932. While these deficits were mounting, the salaries were rising—from \$86,000 in 1930 to \$161,280 in 1932—yet in none of these years, in their report to stockholders, do they mention a deficit. More-

over, the holding company in 1932 paid out over \$375,000 in dividends in spite of the fact that it earned no money. It forced the banks it owed to pay dividends to that amount even though they protested. It is small wonder that in June, 1932, a report made to the comptroller of the currency by the chief bank examiner of the United States for the Seventh District says:

The Guardian Detroit Group was somewhat of a promotion scheme, and in order to show satisfactory earnings in the holding company, dividends were declared far beyond the limit of conservatism; and losses were not taken in the banks. They have always been extremely reluctant to charge off losses and have always desired that they be taken from earnings, but the record of earnings of their bank is most unsatisfactory, and this plan would not permit the elimination of many losses.

It is apparent that Mr. Lord of the Guardian Group is not a banker and he never has been and never will be one. He is more of a glad-hand promoter type, and he always chooses the path of least resistance.

The Mr. Lord who is mentioned was president of a holding company which, with one other holding company, dominated four-fifths of all the banking resources in Michigan.<sup>17</sup>

The various lengths to which the Detroit Trust Company went to keep itself solvent are most interesting. For instance, it had some mortgages which were in default. In order to make the balances appear better certificates of indebtedness were issued against the defaulted mortgages and then sold to a security affiliate, the First Detroit Company. The defaulted mortgages were deposited as collateral for the certificates of indebtedness, which were then sold to the public. Some of these certificates later were even placed in trust-fund accounts.

Under the profit system there is always the temptation for a bank to make loans to its own officers or directors. This is not known to the public unless an investigation follows. For instance, in the liquidation of the Union Trust Company of Cleveland the filed report in the court of common pleas reveals that one-third of the bank assets, \$65,000,000, was buried in mortgage loans. One director had \$3,000,000. The Van Sweringens had loans of \$10,000,000. Cyrus Eaton and his two investment trusts had



over \$10,000,000. An affiliate of the Union Trust had \$5,000,000. Directors, officers, and other Cleveland bank officials had loans totaling \$10,000,000.<sup>18</sup> A small bank outside of Detroit with about \$6,000,000 in assets had loaned to the officers or directors about one-fourth of the entire assets, though deposits of these individuals and the corporations amounted to only about \$18,000.<sup>19</sup>

THE STATE SAVINGS BANK OF ROYAL OAK, MICHIGAN

Borrowers	Loans	Deposits
President .....	\$ 15,001.33	\$ 11.42
Vice President .....	14,482.40	5.75
Vice President .....	21,278.89	2.50
Auditor .....	2,913.04	.42
Directors and associated corporations controlled by directors .....	747,268.88	17,946.62
Directors .....	668,984.00	Not given

The National City Bank loaned \$2,400,000 to a few officers over a short period of time; in 1933, at the time of the Senate investigation, only about 5 per cent had been paid back. One individual who borrowed \$300,000 had paid back \$11,000. Another who had borrowed \$300,000 had paid back nothing. In contrast to this treatment of the executives, the small salaried employees who had bought bank stock on the installment plan at as high as \$200 a share were forced to continue their payments even when the stock dropped below \$40 a share.

Some might feel that this is not far removed from a refined form of respectable stealing from the stockholders. Apparently actual stealing by bank presidents is rather common. At least John W. Pole, former comptroller of the currency, testifying before a United States Senate committee, testified to this effect. Afterwards Senator Robinson of Indiana asked him this question: "Well, if defalcations by bank presidents are common in the comptroller's office, then it is no wonder, is it, that the people have no confidence in the banks?"

"No wonder at all," the former comptroller agreed.

Senator Neely asked if there were 100 defaulting bank presidents in a year.

"I would not say there were not 100," Mr. Pole admitted.<sup>20</sup>

## BANKING OR SPECULATION?

Some bank presidents also apparently like to trade in the market to make profits from stock speculation. Mr. Wiggin, president of the Chase National Bank, had a private corporation whose stock belonged entirely to him and his family. With money borrowed from the bank it traded in the market and in a single year made a stock profit of \$5,000,000. Mr. Wiggin even sold stock of the Chase National Bank short a month before the crash of 1929. The Shermar and Murlyn Corporations, controlled by Mr. Wiggin, borrowed \$8,000,000 from the Chase Bank to purchase Chase Bank stock.<sup>21</sup>

After an investigation of the Detroit banks by a committee composed of some of Detroit's best-known citizens the report asserted that the major cause of the losses of the Guardian National Bank of Commerce was the poor information assembled by its credit department and the absence of loaning responsibility in the officers of the bank. The report declared:

The committee finds in the list of bad loans many loans that obviously have no other purpose than speculation in the stock market. The makers had only limited earnings and no prospects of the payment of the loans other than the rise in stock prices. They were made to clerks, stenographers, bank officers and bank clerks, salesmen and others whose income was not sufficient to warrant any substantial credit.

The committee also finds in the list of bad loans, loans to officers of this bank and officers in other banks which were clearly made to assist or further stock-market operations. This class of loans has been a source of loss to the bank, and the encouragement of these loans has ruined many worthy bank officials.

Mitchell of the National City Bank paid an average of \$367 a share for 18,300 shares of National City Bank stock. On December 20, 1929, he sold them to his wife at \$212 a share and charged off a loss against his 1929 income tax returns. Later he repurchased them from his wife at the same price at which he sold them to her. Although he avoided income taxes by this method he asked the bank to assume a loss of \$5,920,000 because of this purchase. The bank refused to accede to his request.

It is common practice for the bankers to try to avoid income taxes even if this means organizing corporations in Canada.

Naturally, both the bankers and the corporation executives continually endeavor to devise new methods of making additional sums for themselves. When the United Corporation, a holding company, was formed by J. P. Morgan, the Morgan company secured 400,000 shares of common stock and option warrants to purchase nearly 2,000,000 more shares at a low price. They allowed a special favored group of insiders to secure the common stock at a price far below the market. The 1,714,200 option warrants were not given away; J. P. Morgan sold 200,000 between July 23, 1929, and September 20, 1929, for an aggregate of \$8,500,000. There seems to be no clear indication of any real necessity, from the standpoint of the owners of the corporation, why option warrants should have been issued at all. It apparently was an excellent method of giving inside profit to the bankers!<sup>22</sup>

The bankers also try to maintain a price (peg the market) in a certain security while they are distributing it to the public. In 1930, while J. P. Morgan and Company were putting out German 5½ per cent bonds at \$90 through 1,011 distributors, they stood ready to buy \$9,200,000 worth in the market to maintain the price. As far as the public was concerned it might think it were getting the German bonds at a bargain because the market price was higher. The public did not know that a representative of the seller was keeping the price up, and that for a limited time only. As soon as the agreement to maintain the price expired the bonds dropped to 88⅞ and in 1934 fell below 26.<sup>23</sup>

There is a tendency—since bankers are “rugged individualists” in securing profit for themselves—to deceive the public, especially when the bank may be in questionable financial circumstances. Banks all over the country used a wide variety of methods in the attempt to keep open. For instance, a small bank in West Haven, Connecticut, besides permitting town officials to deposit more city money in the bank than the law allowed, secured notes totaling \$80,000 from their board members, although these members did not receive a cent of money. Later, when the

bank crashed, the directors refused to pay the notes, making the defense that they had not received the money. The case was finally compromised for a few thousand dollars.

O. P. Van Sweringen was indicted in Cleveland along with Joseph R. Nutt, chairman of the board of the Union Trust Bank and formerly treasurer of the Republican National Committee, and William M. Baldwin, president of the bank when it closed. It seems that the Van Sweringen corporation claimed to have sold \$10,000,000 worth of government securities with accrued interest of \$112,050 to the Cleveland bank on September 29, 1931. Actually, these bonds were on deposit with J. P. Morgan and Company under an indenture agreement. The transaction was apparently in the nature of a "wash" sale.

All the bank wanted was to secure a signature on a paper for the sale of the securities. It then immediately, the same day, in Cleveland issued a statement showing that the bank owned \$10,112,050 in government bonds. The same day it also credited the deposit account of Van Sweringen with the same amount. The bank's statement consequently indicated it owned \$10,112,050 more of gilt-edged liquid assets than it actually had. On October 7, scarcely more than a week later, the process was reversed. The Union Bank gave to Van Sweringen a bill of sale for the \$10,112,050 in bonds and wrote down the Van Sweringen deposit accounts. The bonds never left the custody of J. P. Morgan and Company, where they were serving without interruption as security behind the indenture agreement. Thus the bank was able to deceive the public by making it believe its assets were very much greater than they actually were.<sup>24</sup>

The Chase National Bank in its annual report, December 31, 1932, included shares of stock in the American Express Company to a total value of over \$40,000,000, although at the very time there was a lien on this collateral of \$17,500,000. Senator Couzens asked Mr. Wiggin whether an applicant for a loan at his bank who made such a statement without showing that there was a lien against collateral would not have been liable to jail. He said, "Assuming that the Chase Securities [Company] went to another institution outside of yours and borrowed money and

presented such a statement, it seems to me that they would be obtaining money under false pretenses." Mr. Wiggin answered, "They would not have done that," and added that they would have shown the lien.<sup>25</sup> Mr. Wiggin was then asked why the lien was not shown to the stockholders, but he maintained that it didn't make any difference whether the management explained this to the stockholders or not.

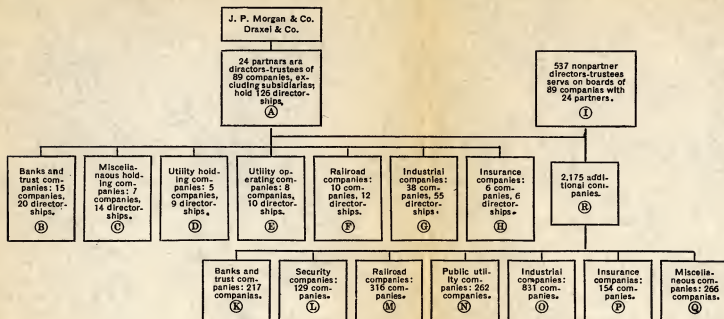
It is not claimed that the banks do not serve a useful purpose in the economic life of the nation or that bankers themselves cannot be servants of the state, but the evidence seems to indicate that under capitalism bankers will inevitably be constrained to do antisocial acts. How could they be efficient seekers after profits and do otherwise? They have been given their positions because of their efficiency in creating and getting profits; the practices outlined are part and parcel of the system. No wonder W. P. Malburn, formerly assistant secretary of the treasury and now vice president of the Irving Trust Company, says of the American banks, "They have at all times been too willing to adopt practices because they were profitable without regard to their soundness."<sup>25</sup>

One cannot escape the conclusion that the banks, having grown up in a capitalistic system, have unconsciously permitted that system to warp their best judgment. In consequence large sums have been loaned to individuals which were used to speculate in Wall Street. Later, when the collateral stock declined in price, the banks did not always sell their customers out, and the depositors ultimately suffered. It is small wonder that Chairman Jones of the Reconstruction Finance Corporation estimates that the ultimate loss to the depositors in closed banks will be about \$2,500,000,000.<sup>26</sup>

The banks were similarly warped in their judgment in the matter of loans on real estate. After all the banks in the United States had closed the bankers jumped to the other extreme and often refused to make loans on homes or for other constructive purposes, no matter how safe. It is thus, under a capitalistic economy, that the institutions of finance themselves fail to serve the genuine needs of the people. This was recognized by President

# CHART III

## CORPORATE RELATIONSHIP OF J. P. MORGAN & CO. AND DREXEL & CO.



### NOTES

- A. Total resources { 14 companies, statements not read; available  
75 companies, \$10,949,396,475.39.  
B. Total resources, \$3,812,411,000.  
C. Total resources (3 companies), \$83,786,475.39.  
D. Total resources, \$3,404,555,000.  
E. Total resources, \$2,818,147,000.  
F. Total resources (9 companies), \$3,436,666,000.  
G. Total resources (29 companies), \$6,037,644,000.  
H. Total resources (5 companies), \$337,187,000.  
I. Directors of 82 companies only.  
K. Total resources { 21 companies, statements not read; available.  
166 companies, \$20,895,574,304.

- L. Total resources { 67 companies, statements not read; available.  
64 companies, \$1,103,669,996.  
M. Total resources { 97 companies, statements not read; available.  
219 companies, \$23,832,697,000.  
N. Total resources { 139 companies, statements not read; available.  
173 companies, \$20,332,950,000.  
O. Total resources { 553 companies, statements not read; available.  
278 companies, \$15,290,561,000.  
P. Total resources { 35 companies, statements not read; available.  
119 companies, \$15,556,274,177,000.  
Q. Total resources { 230 companies, statements not read; available.  
36 companies, \$1,878,737,000.  
R. Total resources { 1,172 companies, statements not read; available.  
1,003 companies, \$100,890,413,407.

A and R { 29 companies have deposits with J. P. Morgan & Co. of \$1,000,000 or over.  
37 companies have deposits with J. P. Morgan & Co. of \$100,000 or over.

From "Hearings before the Committee on Banking and Currency, United States Senate, Seventy-Third Congress," Part II, p. 904, 1933.

Roosevelt himself when in his inaugural address he said, "The rulers of the exchange of mankind's goods have failed through their own stubbornness and their own incompetence. . . . Practices of the unscrupulous money changers stand indicted in the court of public opinion. . . . They knew only the rules of a generation of self-seekers," and, "The money changers have fled from their high seats in the temple of our civilization." Unfortunately, even the Roosevelt administration has been unable to keep the money changers out of their high seats for more than the brief period while the banks were closed. Since then they have come back with almost as much influence as ever. It is silent testimony to the fact that in every capitalistic nation the banks exercise colossal power which cannot be dislodged while the system remains.

The *Wall Street Journal*, commenting on the power of Mr. Montagu Norman of England, says, "The extent of his powers makes him the currency dictator of Europe."<sup>27</sup>

It is reported that J. P. Morgan controls, either directly or through interlocking directorates or otherwise, about \$74,000,000,000 of corporate wealth. This was estimated to be approximately one-fourth of the corporate assets of the United States. Mr. Lamont, testifying before the United States Senate commission, hesitated to confirm these figures without checking them, but he agreed that it was probable that the Morgan partners held ninety-nine directorships in seventy-two corporations with combined assets of approximately \$20,000,000,000.<sup>28</sup> Chart <sup>29</sup> III referring to this is reproduced from the material submitted in the senatorial investigation. It shows that J. P. Morgan and Company and Drexel and Company have directorships in eighty-nine corporations and banks, and with 537 "non-partner" directors of the same corporations and banks indirectly are represented on an additional 2,175 companies.

Mr. Van Sweringen in his testimony before the senatorial commission, when asked about the influence of the banker on the railroads and railroad management, was a little hesitant to admit specifically that "the man who controls the purse strings runs the household." He did agree that "the banker in the railroad

field occupied a position of influence" that Van Sweringen recognized and respected at all times.

As far back as 1911 Woodrow Wilson declared, "The great monopoly in this country is the money monopoly." It still is. The investment banker has been and is the dominant figure in the financial oligarchy. These bankers control through combination and concentration.

In order to keep the goodwill of investors those who float the securities of corporations must see that they are not manipulated for the benefit of insiders. Hence they tend to control the corporations they finance. The fact is that the bankers are represented on most of the great corporation boards and there is a spider-web crisscross representation which to some degree unifies the financial system into one gigantic pattern. To illustrate, those on the boards of the corporations listed held the following number of directorships: <sup>30</sup>

Corporations	Directors' Directorships
Aluminum Company of America.....	151
American Telephone and Telegraph Company.....	226
Anaconda Copper Company.....	164
Armour and Company.....	173
Bethlehem Steel Company.....	198
Consolidated Gas Company of New York.....	195
General Electric Company.....	218
General Motors Company.....	167
International Paper and Power Company.....	174
New York Central Railroad Company.....	306
Pennsylvania Railroad.....	241
Radio Corporation of America.....	232
United Fruit Company.....	197
United States Steel Corporation.....	174

During the past few decades there has been a steady consolidation of banks and trust companies, a steady increase in interlocking directorates, voting trusts, gentlemen's agreements, and "banking ethics" which make the investment bankers act in com-



mon accord. Moreover, the huge public-utility holding companies, the consolidations of railroads, and the industrial trusts have made the New York bankers indispensable to the economic life of the nation. Investment bankers like J. Pierpont Morgan, as noted in the chart, have become the directing power in the railroads, the public-service companies, the life insurance companies, the banks, and the trust companies. It can thus be seen that the investment bankers unite in their own offices the functions of dealers in stocks and bonds, who control those who issue this paper; also those who operate the corporate reservoirs of the people's savings—such buyers of stocks and bonds as insurance companies, universities, and endowment trusts; also such depositories of the people's money as the banks. American capitalism is finance capitalism, which has effected the interlocking control of finance described. Even a president of the United States who may want to reform the system cannot permanently do so unless he secures the coöperation of many of these bankers. If they oppose him vigorously the reforms are usually nullified in actual practice. Professor John R. Commons describes this *finance capitalism* as "an economic government of bankers more powerful than the political government."<sup>31</sup>

Long ago Louis D. Brandeis, now a Supreme Court justice, warned us of the dangers of this financial oligarchy. He declared:

Banker-management fails, partly because the private interest destroys soundness of judgment and undermines loyalty. It fails also because banker-directors are led by their occupation to apply a false test in making their decisions. Prominent in the banker-director mind is always this thought: "What will be the probable effect of our action upon the market value of the company's stock and bonds, or indeed generally upon stock exchange values?" The stock market is so much a part of the investment banker's life, that he cannot help being affected by this consideration, however disinterested he may be.<sup>32</sup>

The United States Senate Committee on Banking and Currency, in its report in 1934, confirmed this warning. After months of investigation of present practices they declared many of the activities "one of the most scandalous chapters in the history

of American investment banking." <sup>33</sup> The colossal loss sustained by the public on bond issues sponsored by these bankers proves, according to the Senate committee, that these bankers "were either incompetent or derelict in their performance of their duties." "The record of activities in the investment banking field and of the methods by which security issues were originated and sold to the American public was so shocking as to place beyond controversy the urgent need for legislation."

New amendments by Congress are not of great avail. The leopard does not change his spots. Max Lowenthal has conclusively proved that even after Congress had acted under the new administration to pass a drastic Securities Act to protect the investor the Chase National Bank and others evaded its provisions. For example, in floating a bond issue for the Brooklyn-Manhattan Transit Corporation the bankers not only sidestepped the law but they did less than before to protect the investors. The company issued no prospectus at all to give facts to investors and the bankers sold the bonds only within the state thus avoiding the federal law. They also used words in the indenture of the bond negating the safeguards Congress had enacted and to give broad immunity to officers and directors of the corporation and to the bank itself. <sup>34</sup>

We cannot do better in closing this chapter than to quote once more from Louis D. Brandeis, of whom the great scientist Einstein wrote, "The development of humanity rests less in the brains of inventors than in the consciences of men like Brandeis." Brandeis says:

We must break the Money Trust or the Money Trust will break us. . . . For banker-management contravenes the fundamental laws of human limitations: First, that no man can serve two masters; second, that a man cannot at the same time do many things well. <sup>35</sup>

## CHAPTER VI

### THE STOCK EXCHANGE

IN SOME 330 cities of the United States there are 5,184 stock-exchange tickers. Some of these throw their message through a translucent tape onto a screen where some hundred people more or less eagerly watch the changing numbers. People sit around in chairs, whisper orders to near-by clerks, and if the market is going up or down violently try not to appear excited or worried. Besides the main stock-exchange tickers there are some 1,058 curb tickers scattered all over the United States. All of these mechanisms tell the nation and the world exactly what are the transactions and prices on the stock exchanges of New York.

#### THE GAME

This, in the aggregate with all its ramifications, is the mechanism which enables finance capitalism to function. In nearly every country in the world except the Soviet Union there are one or more similar stock markets. In such leading nations as England and France a constant interchange of orders with other markets, including New York, is taking place. No doubt the United States, as a young industrial country, has developed the stock exchange into a more active agency than have any of the other countries, and we shall here use for illustrative purposes the New York Stock Exchange and the peculiar behavior patterns that go with it. The huge aggregations of capitalism which our modern mass methods of production require demand collective financing, and this the stock exchange makes possible. It permits the public to supply the capital for the inside few to use. It gives the public a chance to share in the profits and the losses and yet assures them a chance to cash in on their invest-

ments instantly whenever desired; that is, provided there is anything left.

The rationalizations of the capitalistic system are nowhere more clearly shown than in its use of the term "securities" for the little pieces of paper which are given in exchange for the money of the public. Time has proved that if there is anything which is *not secure* it is stocks and bonds.

#### THE CARDS

Yet it is probably true that so many of our institutions have now become investors in such paper that what happens in the market affects a greater proportion of the people than is true of almost any other country. At the present time nearly half of the entire national wealth is represented in stocks and bonds, and anywhere from a third to a half of the annual savings of American individuals and corporations goes into these channels. This represents somewhere between \$4,000,000,000 and \$6,000,000,000. In 1932, on the basis of its par value, this represented some \$240,000,000,000. Even at the lowest point in 1932 the total market value was equal to \$100,000,000,000.

Moody's Manual, giving information about these various concerns, covers nearly 17,000 corporations and companies and over 11,000 governmental units. It comprises extraordinarily large volumes on each of the following subjects: industrial corporations; banks, insurance and investment trusts; utilities; railroads; and governments. *In toto* it requires over 15,000 pages to give the information.

In spite of this the average investor who has no secret information is left rather hopelessly in the dark in a capitalist economy in the matter of the real value of stocks even more than he is in the purchase of consumption goods. At least he sees the latter before purchasing, but in the case of stock he has to rely almost solely on printed descriptions. Even such a valuable compendium as Moody's must inevitably rely largely on information furnished by the corporations themselves. Usually the statistical data are rather ancient before they reach the public. Many corporations deliberately withhold information. Out of

1,157 companies whose stock was listed on the New York Stock Exchange in November, 1933, 315 published statements only once a year.<sup>1</sup>

#### THE PLAYERS

In the face of having the cards somewhat stacked against them, the number of the public who speculate is large. The Twentieth Century Fund estimates that the total is from 6,000,000 to 10,000,000.<sup>2</sup>

Probably the most accurate index is in the replies of the New York Stock Exchange member firms to the questionnaire sent by the United States Senate committee in 1934. This showed that in 1929 there were 1,371,920 customers who bought or sold securities through member firms,<sup>3</sup> and of these only 559,934 had margin accounts.

This same survey showed the colossal profits made by the various exchange houses. New York Stock Exchange member firms had a net income of \$683,000,000 in 1928 and 1929. They sustained a net deficit of \$11,388,000 in 1932 and a profit of \$96,539,169 for the first eight months of 1933. Stock Exchange members who operated independently of firms made profits straight through the depression. The net income of 202 individuals in 1928 was \$26,104,556; of 267 individuals in 1929, \$24,110,528; of 298 in 1930, \$6,421,338; of 332 in 1931, \$2,722-979; of 382 in 1932, \$1,037,404; and of 407 for eight months in 1933, \$12,488,656. This means that the average income in 1929 for these individual members was \$90,301. The commanding position of the New York Stock Exchange as far as profits is concerned can be seen from the fact that the net income of curb firms from January 1, 1928, to August 31, 1933, was only \$40,515,055 and the net income in twenty-seven other exchanges was only \$17,264,028 for the same period.<sup>4</sup> This is contrasted with a net income for New York Stock Exchange firms and of members acting as individuals for this period of \$833,167,686. In the income-tax returns as a whole in 1929 some 470,000 reported profits on stocks and bonds, but only about 100,000 made nearly

all the profits.<sup>5</sup> It appears to be the stock-exchange members and the wealthy who are chiefly successful.

In fact, individuals having incomes of over \$1,000,000 got only 2 per cent from earned salaries, 26 per cent from interest and dividends, but nearly 60 per cent from speculative gains. Those with incomes of from \$50,000 to \$100,000 earned 16 per cent and got 32 per cent from interest on bonds and dividends on stocks and 28 per cent from speculative gains.<sup>6</sup> Most of those who received incomes of less than \$10,000 had to work for what they got.

#### THE BYSTANDERS

Nevertheless, in the aggregate, a bewildering number of shares of stock changes hands in the New York Stock Exchange. In October, 1929, just before the crash, 19,140,280 shares of stock were sold in a single week; even in June, 1933, 19,925,000 shares were sold, which is over twice as many shares as were sold in the same week in 1927. The growth of the use of the New York Exchange and of stock speculation can be seen from the fact that over 83,000,000 shares were traded during 1913, but in 1929 over 1,124,000,000 shares were sold; even in 1933 over 654,000,000 shares changed hands.<sup>7</sup>

There is little question but that the stock market does aid the flow of savings into investments by providing an instant convertibility into cash. It also provides a means of readily evaluating the worth of securities, although the market value may be far from the real value. For example, from 1926 to 1929, while dividends paid on stock listed on the New York Exchange increased 56 per cent and earnings increased 93 per cent, the stock-market prices trebled.<sup>8</sup>

While there may be a relatively small number of individuals who purchase stock, the market nevertheless affects every citizen in a capitalistic country. The banks, the universities, the insurance companies have a large part of their resources invested in stocks and bonds. The collapse of what the capitalistic world paradoxically enough calls securities was one of the reasons why over 6,000 banks, involving \$3,500,000,000, closed their doors

during the depression in the United States. This is reason enough why every citizen should scrutinize with great care the workings of the New York Stock Exchange. Three-quarters of all securities outstanding are listed on the exchanges, and of all stocks which are listed 90 per cent are on the New York Stock Exchange.<sup>9</sup>

#### THE SHUFFLE, THE DEAL, AND THE PAYOFF

Unfortunately, the stock market is a device which can be used by insiders to reap inordinate profits at the expense of the average investor or "lamb." Since the capitalistic system is frankly organized for profit it is hard to see how anyone could expect any other result. For instance, one director of a prominent transportation company, receiving \$20,000 as chairman of the finance committee, anticipated the passing of the dividend and sold huge blocks of stock so that it dropped from 25 to 11½ in less than two weeks before the dividend was passed.<sup>10</sup>

The market also lends itself to speculative transactions of all sorts; this means stocks are constantly being forced up or down almost regardless of their real worth. In 1928, for instance, twenty-eight market leaders on the average turned over four times, but since most of the shares of these companies were closely held there was only about 30 per cent of the stock which was available for trading. Thus the floating supply turned over thirteen times.

So great was the speculation in 1929 that at the peak of the market the loans to finance speculation reached \$9,000,000,000. Over \$4,000,000,000 represented funds which came from sources outside the banks. Corporations were loaning 56 per cent of this, individuals 20 per cent, investment trusts 14 per cent, and foreign lenders 10 per cent.<sup>11</sup>

One method of manipulating a stock is to sell it short. For example, in the summer of 1931 speculators sold the stock of the J. I. Case Company short. By August 28 there was a short interest of 139,600 shares, about 71 per cent of the entire issue. On August 1 the stock was priced at 60, but by the end of December it reached 38½. The speculative character of this

market was clearly shown by the fact that although there was only a total of 195,000 shares outstanding, the following numbers of shares were sold each week: August 3, 288,600; August 10, 213,000; August 17, 428,000; August 24, 432,000; August 31, 382,000; September 7, 310,000; September 14, 204,000; September 21, 348,000. It appears that there must have been a concerted effort to drive this stock down.

One widely practiced technique is to organize a pool in some stock to force it either up or down. These pools are extremely common. As illustrative of the practices under capitalism consider several pools which participated in buying and selling Fox Film and Fox Theaters Corporation. In a single one of these, in which the president of the company participated, there were profits of \$1,937,000 in less than five months. In this case the participants deposited \$4,500,000, which effectually debars any but extremely wealthy individuals.

In the summer of 1933, under the New Deal, various alcohol pools operated. The price of United States Industrial Alcohol was pushed up from 26 to 94 and the stock was turned over three times. In May, 1933, the stock of National Distillers' Products was quoted at 29. In nine weeks following May 27 there was so much activity in the stock that a total of 2,068,800 shares was sold, or three times the total number of shares outstanding. The stock was pushed up to 124 $\frac{3}{4}$ . The collapse was sudden and complete. From July 17 to July 21 it went down 60 points.

In the American Commercial Alcohol Corporation, Russell R. Brown, chairman of the board, testified before the United States Senate banking committee that he and some other members of the board had participated in a syndicate, using the names of others to conceal their interest. The syndicate was formed in May, 1933, to underwrite an issue of 41,000 shares of stock to company stockholders at \$20. Since the stock was selling on the market at the time at over \$30 a share, there was no risk involved for them, but it did bring losses to others.<sup>12</sup>

In the Libbey-Owens-Ford Glass Company pool Redmond and Company, acting for itself, the Hyva Corporation, Lehman



Brothers, Bell and Beckwith, Walter P. Chrysler, Joseph P. Kennedy, Kuhn, Loeb and Company, and Wright and Sexton, purchased from the Libbey-Owens Securities Corporation 65,000 shares of stock at \$26.50 a share and secured options to purchase 80,000 additional at prices ranging from \$27.50 to \$30.50 a share. From June to October, 1933, the pool traded approximately a million shares of stock and made \$395,238.12 in profit, although none of them had to put up a cent of cash.<sup>13</sup>

A somewhat similar operation to float 1,130,000 shares of stock in the Sinclair Company in 1928 resulted in a profit of \$12,000,000 to the insiders. These included Sinclair himself, the Chase Securities Corporation, and Blair and Company. An interesting feature of this operation was that an official of the former Prairie Oil Corporation, a rival company, was given \$300,052 of the profits.<sup>14</sup>

A particularly notorious pool operation was one handled by Dominick and Dominick, in which members of Dillon, Read and Company participated. It involved the stock of the United States and Foreign Securities Corporation, which had originally been acquired by individual members of Dillon, Read and Company for \$0.20 a share in 1924. Dominick and Dominick made an agreement with Dillon, Read and Company to secure options on 30,000 shares of this stock at prices varying from \$47.50 to \$55 a share. Dillon, Read and Company, in order to aid this concern in selling these shares of stock short, agreed to loan them 30,000 shares at any time during the life of the agreement. As a result 74,198 shares were sold to Dominick and Dominick and nearly 50,000 additional shares were sold by members of the Dillon-Read firm in open-market transactions. The result was that these members of the firm succeeded in selling what had been originally purchased for \$24,110.40 for \$6,843,380.66—a profit of over \$6,800,000. During these operations Dillon, Read and Company were managing this investment trust and Mr. Christie, who was a member of their firm, was also vice president of the United States and Foreign Securities Corporation. The stock was being marketed to the public at outrageously high prices while the insiders knew that the

company had adopted a policy of not paying any dividends on common stock.<sup>15</sup> It is small wonder that the stock declined in 1932 to a low of  $1\frac{3}{8}$  and has never paid any dividends on its common stock.

Other pools operating in the summer of 1933 were Commercial Solvents, which was run up from  $16\frac{1}{2}$  to  $57\frac{1}{4}$  and then unloaded, Standard Brands, and Great Western Sugar.

Pools which operated in 1929 were, of course, much more profitable. For example, the Radio pool which operated for one week in March 1929 made \$5,000,000. John J. Rascob realized \$291,710 himself. Senator Glass compared the pool operations to playing in a card game with a card up your sleeve.<sup>16</sup>

The three Warner brothers, by buying and selling the stock of their own company, Warner Brothers Pictures, Inc., in 1930 realized a profit of \$9,251,454.50. Further testimony showed that the three Warner brothers also lent the company \$3,365,000 in return for debentures that now pay a guaranteed return while the stock pays nothing.<sup>17</sup>

Of course, for everyone who makes a profit there is normally someone who loses. The pools have all the perquisites and knowledge of inside practices which make it possible for them "to shear the lambs." Pools can make wash sales where no actual payment or delivery is contemplated. The pool can make a dicker with the specialist who is commissioned by the stock exchange to deal in a particular stock. In the case of the Fox pools the specialist was paid \$10,000 for his services and in addition his firm made a profit of \$42,000 from his deals.<sup>18</sup>

#### THE COME-ON

Another method by which the profit-making insiders operate on the stock market is to secure or give away options to purchase stock. For example, if a stock is selling on the market at 21, options to purchase it at 25 may be given to brokers and others. This tends to make them recommend the stock to their customers; if the latter buy it the price rises; and if the stock goes above 25 the option holders make money. On the other hand, insiders may have accumulated stock which cost them

only an average of 15, in which case every option that is exercised means a heavy profit for them. From August 2 to November 15, 1933, 110 companies were affected by options. Seventy-three companies had options outstanding which involved 10,000 shares or more. In fact, 13 per cent of all companies had options. It is interesting to note that in the case of the seventy-three companies which had the largest number outstanding, those who granted the options were as follows:

OPTION GRANTER	Number of Cases
The issuing company .....	17
An officer or director of the company .....	20
Another company .....	17
A bank .....	5
A brokerage firm .....	3
An individual not connected with the company .....	10
No data .....	1

It is rather startling to note that in over 50 per cent of the cases, either an officer, a director, or the issuing company gave the options. In seven of seventeen cases where the company issued the options they were granted for over a year. With one exception they ranged from 50,000 to 500,000 shares.<sup>19</sup>

The hearings before the United States Senate Committee on Banking also showed that options to purchase stock had been issued to interested parties in the following concerns, among others:

Stock	Number of shares	Option price, per share	Year
Consolidated Aircraft .....	30,000	\$10-\$13	1933
Graham-Paige Motors .....	70,000	\$3-\$4.50	1933
American Water Works and Electric..	32,000	\$8.50-\$21	1933
Julius Kayser and Company .....	25,000	\$8.50-\$12	1931-1932
Houdaille-Hershey, Class B .....	25,000	\$7-\$10	1931
Zonite .....	50,000	\$5-\$11	1932
Petroleum Corporation .....	50,000	\$8.75-\$11	1931

Another method which is used effectively by pool manipulators is *controlled publicity*. This involves especially radio speeches

and newspaper articles. In the case of the Radio pool, the Twentieth Century Fund made a study to find out what was done in the way of publicity. "An analysis of the comments by financial and other special writers, appearing in the daily press, presents a picture of a ballyhoo of almost unprecedented proportions." They show that not a single day went by from March 1 to March 20 when experts and others did not laud the possibilities of the radio.<sup>20</sup> Rumors about mergers were also circulated in the press. The financial columnist of the *New York Daily News* was paid \$19,000 from May 3, 1929, to March 1, 1930, for boosting other stock in which he was interested. A guaranteed account was carried in a brokerage house for him and the guarantor of his account and associates made profits of over \$1,000,000 in these operations. The testimony before the Senate banking committee proved that such payments were common.

Ballyhoo artists were also commonly employed. Testimony of David M. Lion before the Senate banking committee is significant. He was retained by various pools and given options in the stock traded. At various times he handled some 250 accounts and actually made \$500,000 from the options he was given. Some of these options came from company officials. The giving of these options was all but universal among the brokerage houses. In fact, the list of all those that used them is almost like a list of all the firms who belong to the New York Stock Exchange.

Mr. Lion testified, "And if I could get an option or a call on some stock I would use my publication, and I would use the radio, and I would use the newspapers, printing facts that were taken out of various financial manuals." Naturally the newspaper and radio publicity was paid for. Mr. Lion paid the well-known radio "economist," William J. McMahon, who gave talks every week on securities under the auspices of the "New York Financial Research Bureau." Lion testified that he paid him as high as \$250 a week. McMahon would urge his radio audience to purchase the particular stock he was paid to advertise, although he posed as a disinterested expert.

Another practice extensively used is to pay individuals or brokerage clerks to recommend a stock which the pool wished to distribute. The Twentieth Century Fund concluded that this practice was general. "In fact, it is generally understood that a more or less recognized rate of payment had been established by which customers' men received an option on one share of stock for each three shares which they were able to persuade their clients to purchase." This effectively prevents unbiased advice being given customers, although under the profit economy the entire finance mechanism is tainted with the quest for profits which prevents it from being strictly disinterested at any point.

Even some of the largest banks had executives who "were in fact using the bank's funds to play the market." The banks supplied the credit and if there were losses they were sometimes written off by the bank.<sup>21</sup> No wonder bank stocks have fallen so low in value.

#### THE MIRRORS

It was shown that in some cases banks secretly advised pool operators regarding the amount of loans by the bank to individuals, secured by a particular stock as collateral. The pool would then force down the price so that the stock could be thrown on the market and they could get it.

#### THE KIBITZERS

Since the average individual who invests knows that he is rather hopelessly in the dark, a large number of information services have sprung up which are also operating for profit. Two investigations of such services have been made. One was made by Professor Garfield V. Cox during the golden period from January, 1921, to December, 1929.<sup>22</sup>

This studied the services of Babson, Brookmire, Moody, Standard Statistics, the Harvard Committee on Economic Research, and the National City Bank of New York. The conclusion was that they averaged 75 per cent in respect to definiteness, correctness and adequacy.

A second study made by Alfred Cowles<sup>23</sup> covered sixteen

services making recommendations for common stocks, twenty-four financial publications engaged in market forecasting, and also the market forecasting of the editor of the *Wall Street Journal*, all from January 1, 1928, to July 1, 1932.

During the period covered the sixteen financial services made 7,500 recommendations for common stocks. The result of the study showed that these recommendations were worse than the performance of the average stock by 1.43 per cent annually. The twenty-four financial publications engaged in market forecasting during the same period failed by 4 per cent to achieve a result as good as the average of stocks selected at random. The editor of the *Wall Street Journal* had a fifty-fifty record. Half his predictions turned out well and half turned out poorly.

The study which we have already made might make one wonder if it is not probable that some of these publications and services had a financial stake in certain stocks so that their advice was definitely stacked against the unbiased service of the customer. It is conceivable that this accounts for the fact that the advice of the economic services was worse than the performance of the average stock. Since all these agencies and organizations are themselves operating for profit and are dealing with profit-motivated corporations, it is not to be wondered at that the public is sheared.

The Twentieth Century Fund in its study declares, "It is safe to say the majority of such services today much more often hurt than help both the investor and the speculator using them. Numerous 'sheets' calling themselves advisory services are designed to mislead and make financial victims of subscribers."<sup>24</sup>

Besides these services there have been some 3,000 investment counsellors operating in the United States. They charge a fee for investment service. A number of these counsellors who were operating in 1929 now frankly admit that at the time they were completely wrong in their advice to clients.

The Twentieth Century Fund concludes from its study, "The whole country in recent years has been obviously suffering from a sort of stock-gambling mania, and probably is still quite susceptible to the malady."<sup>25</sup>

## THE COPS

In 1934 Congress passed the Securities Exchange Act, which for the first time in the history of the United States brings the stock exchanges under federal control. It provides for a commission of five appointed by the president, who will do the regulating. John T. Flynn, in an exhaustive study of security speculation, says that as the act was originally framed it was designed to protect innocent investors and the social order itself; but the act was substantially emasculated and as finally passed merely preserves to the market the function of speculation and prevents some abuses.<sup>26</sup> Actually, the law makes so few requirements and gives such wide powers to the commission that it is impossible to determine how effective it will be in even curbing abuses until after a period of years of observation of what the commission actually does.

On the whole the stock market is probably not much more diseased than any other aspect of our finance mechanism. If it is run primarily for profit, the kind of thing which we have sketched is inevitable. The stock market is simply part (and a relatively small part) of the mechanism of finance capitalism, yet because of its invested funds and close organization it is powerful. It now controls, directly or indirectly, the bulk of all the cash and credit in the country. The stock market is infected with the profit psychosis the same as every other part of the mechanism. At the same time it is an active carrier of the disease.

## CHAPTER VII

### INVESTMENT TRUSTS

DR. E. E. FREE of New York University, a teacher of science, took apart an ordinary nickel slot machine and demonstrated to his students that for every \$50 the players deposit they get back \$37.80.<sup>1</sup> Slot machines are illegal in New York City because this proportion is considered unfair, but what shall we think of investment trusts? It is not my intention to imply that there are no investment trusts which do not provide a fair return to the investor, but only that a great many have not done so. They are one of the more modern devices of finance capitalism to use other people's money.

John T. Flynn has told the story <sup>2</sup> of what happened to many of the investment trusts in the United States where insiders unloaded weak securities in the investment-trust portfolio and left the public holding the bag. Unfortunately, he wrote early in 1930, and at that time only the upper crust of the problem had been scratched.

#### INVESTORS VS. INSIDERS

Since all investment trusts were organized for profit and were controlled in many instances by a small group of insiders, it seems only reasonable to expect that to the extent the management can do so it will make profit for itself. Always there is the temptation to make profit at the expense of someone else.

How easily the public was exploited by many of these investment trusts is now clear. Usually the insiders had complete control and sometimes they secured it without much cost to themselves. For instance, the Chatham-Phenix Bank set up the Chatham-Phenix Allied Corporation. It issued 1,900,000 shares of nonvoting stock at \$27 for \$51,300,000. It also issued 100,000



shares of voting stock at \$25 for \$2,500,000. The bank in this case took all the voting stock, but when it issued its statement it listed only \$50,000,000 in cash. Apparently \$3,800,000 had gone into organization expenses, on which, of course, the bank had first claim. Assuming that the bank could keep down the actual outlay of money to \$1,300,000, it would have secured all the voting shares for nothing.

#### FRENZIED FINANCE

Once the investment trust is securely in the hands of insiders it can be used as a convenient dumping place for securities of questionable worth or for securities which the insiders wish to unload.

Lehman Brothers organized an investment trust called the Lehman Corporation with assets of \$100,000,000. They used \$3,000,000 to buy 30,000 shares of Lehman Corporation.

Dillon, Read and Company organized the United States and Foreign Securities Corporation in 1924. They sold 250,000 shares of first preferred stock with 250,000 shares of common for \$25,000,000, but the dealers including Dillon, Read and Company received \$1,000,000 as their commission. Dillon, Read and Company took 50,000 shares of second preferred and 750,000 shares of common stock for \$5,100,000. When issued only the common stock had voting power, so that Dillon, Read and Company actually secured control of the corporation with little expense to itself. Actually, of this total they had purchased half of all the common stock, 500,000 shares, for \$100,000 or \$0.20 a share. Had they sold this later at the top of the market it would have netted them \$36,000,000. Had they sold all 750,000 common shares at this price it would have given them \$54,000,000. Actually, through a pool operation previously described, they secured a profit of over \$6,800,000. Even in August, 1933, the stock was selling for around \$15 a share, and this was in the midst of the depression. Yet if it had been sold to average \$15 a share it would have netted Dillon, Read and Company over twice as much as they paid for their preferred and com-

mon stock together and over seventy-five times what they paid for the common stock alone.<sup>3</sup>

If an individual steals some money from a man by selling him worthless stock he may be arrested, but if a great investment house organizes a trust, takes \$25,000,000 of the public's money, and keeps three-quarters of all the common stock issued by making a nominal payment, it is a legitimate transaction!

In 1928 Dillon, Read and Company organized the United States International Securities Corporation. They took \$10,000,000 from the surplus of their first investment trust and used it to buy 100,000 shares of second preferred stock and 2,000,000 shares of common. Dillon, Read and Company secured \$1,000,000 in cash as fees and for the sale of stock in this second investment trust.

Mr. Dillon was compelled to admit that "most of the losses that were incurred by the investment trusts were by reason of investments made in securities of corporations with which members of the board have been affiliated in some capacity or other, or associates of Dillon, Read and Company had likewise been so associated."<sup>4</sup>

In the charter of the United States and Foreign Securities Corporation a clause had been inserted which exempted any officer or director of this investment trust from liability to any stockholder for any losses arising from a transaction with another corporation in which a director of the investment trust was interested, even though the vote of that director was necessary to put the transaction through.<sup>5</sup>

Actually, such losses because of investments in which the directors had a prior interest were very large. For instance, the loss in the securities of the Rock Island Railroad and San Francisco Railway was over \$11,000,000, while that in the Louisiana Land and Exploration Company was over \$200,000. Another investment was in the Seaboard Airline Railway Company which went into receivership.<sup>6</sup>

#### FOR SERVICES RENDERED

As another example of the methods of investment trusts, let us examine the Goldman-Sachs Trading Corporation again.

Since we have already related the little episode in connection with Frosted Foods we are now in a position to secure a total picture of how the investment trust actually worked. The Goldman-Sachs Trading Corporation is a Delaware corporation organized in 1928. Goldman, Sachs and Company pocketed some \$3,000,000 for organizing the company and selling shares to the public, and it did finally succeed in getting \$100,000,000 for the corporation.

What did this corporation put the investors' money into? It organized another investment trust called the Shenandoah Corporation. This corporation sold 1,000,000 preferred shares to the public at \$51.50 and 1,000,000 common shares at \$17.50. However, there were 4,000,000 additional common shares. Half of these were given to the Goldman-Sachs Trading Corporation in exchange for 238,096 shares of its common stock and half were given to the Central States Electric Company for 480,770 shares of its stock and some cash. The stock was put down in the portfolio as worth \$52,000,000, so that the Goldman-Sachs Trading Corporation got its stock at a rate which was apparently below that sold to the public.

Instead of investing its funds in productive companies the Shenandoah Corporation proceeded to organize the Blue Ridge Corporation, which sold preferred stock to the public to the tune of over \$61,000,000 and common stock to the public at \$20 a share. However, 6,250,000 common shares were taken by the Shenandoah Corporation at half that price. The Goldman-Sachs Corporation supplied the money by purchasing the preferred stock.

The Blue Ridge Corporation, at last, began to place its money in productive enterprises, but it still invested a good deal in a finance corporation, the Central States Electric Corporation, which in its turn had money in public-utility holding companies. The largest investment of Goldman-Sachs went into Pacific American Associates, Inc., \$82,912,610. This was another finance company which controlled the American Company, a holding company which owned all the stock of the American Trust Company, which in turn owned the American National Company, a

security holding company which in turn held all the stock of the American Securities Company. The American Trust Company owned ninety-six branch banks in the San Francisco district. The Goldman-Sachs Trading Corporation also controlled the Manufacturers' Trust Company in New York City, with forty-five branches. It also organized a string of insurance trusts. Each of these various companies in one way or another had to sluice off something from the flow of profits if there were any. The parent company in this long line, the Goldman-Sachs Trading Corporation, was obligated to pay 20 per cent of the net income to Goldman, Sachs and Company for the services of management. Is it any wonder that there was not much left in the end for the public? Is it surprising that Goldman-Sachs finally sold out to the Atlas Corporation with tremendous losses to the public who invested?

A letter written by one of the leading officers of the Halsey Stuart Company and presented by the government in the Insull trial in Chicago gives a revealing flash about what the financiers themselves thought of some of these investment trusts.

In connection with the new company I told my brother this morning in my opinion I thought we would make a great mistake in listing either the preferred or the common stock on any exchange. . . . I do not know how Goldman-Sachs and the rest of them get by the blue-sky laws, but certainly there must be some answer to it.<sup>7</sup>

The technique of Goldman-Sachs was not exceptional. The fact is that the managements of nearly all these investment trusts extracted a heavy toll. Kidder, Peabody and Company, for instance, took one-fourth of all the common stock as payment for organizing two of their investment trusts and took all of the common stock for organizing the third and purchasing its preferred stock. If they had desired they could have sold half the preferred and common stock for what they had paid for all of it.

#### BANKERS FIRST

Again consider the financial erections of Cyrus S. Eaton of Cleveland. He was responsible for a whole bevy of investment

trusts, including Continental Shares, Commonwealth Securities, Inc., International Shares Corporation, Inland Investors, and others in which the public placed funds to the extent of hundreds of millions of dollars.

With this money Eaton financed the Trumbull Iron and Steel Company, and in the process, of course, had himself and associates elected controlling directors of Trumbull. They then began acquiring stock in the Republic and Inland Steel Company. Next they used both the investment-trust funds and the funds of the Trumbull Steel Company to the extent of \$775,000 to purchase 2,400,000 shares of stock on margin through the bankers, Otis and Company, of which Eaton was a member. Eaton had himself and associates elected to the board of the Republic and then induced the Republic to vote to acquire the Trumbull Company. In making this purchase they allowed Otis and Company, the bankers, to buy 20,000 shares of Republic at \$15 a share under the market because the Trumbull Company already had a contract with these bankers promising a commission of \$1,280,000 and an option to buy 100,000 shares of stock at \$9.

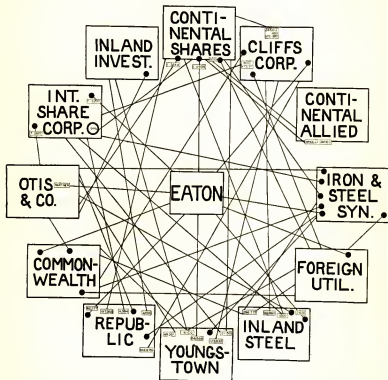
Much the same process was followed when the Republic secured control of the Donna Steel Company, Central Alloy, and Bourne-Fuller. In the case of Central Alloy, Otis and Company had an option to purchase 200,000 shares of common stock.

It is almost impossible to describe the complexities of Mr. Eaton's financial machinations, but a chart prepared by Newton D. Baker and used at the trial when Eaton was suing to block the merger of Bethlehem Steel and the Youngstown Sheet and Tube Company is reproduced on page 112. Each of the twelve corporations represented held investments in nearly every other, and Eaton thought he had the whip hand. He was chairman of the board of directors of Continental Shares, of International Shares Corporation, and of Commonwealth Securities, Inc. He was also a partner in Otis and Company and vice president of Cliffs Corporation, besides being director in seven other large corporations.

Of course this complex financial empire could not stand the strain of the depression in spite of the inside advantage which

Eaton had for securing profits for himself. It crashed, leaving the public as usual with hardly anything for the money it had invested. Eaton himself had a large number of lawsuits brought against him for mismanagement. One such suit charged that

CHART IV  
THE FINANCIAL WEB OF EATON



as a result of his carelessness and mismanagement the value of the assets of Continental Shares sank over \$38,000,000. Another action charged that Eaton and the Foreign Utilities Corporation, owned by him, sold to Continental Shares some stock and received \$2,400,000 over the market price for it. On April 27,

1931, at the request of bankers called in to save Continental Shares, Mr. Eaton finally withdrew from these corporations.<sup>8</sup> The great central investment house, Continental Shares, and its affiliates are in receivership. The wrecking of this system was instrumental in helping to bankrupt at least one of the large banks in Cleveland. When the buccaneers of finance fight among themselves it is the people who lose. Late in 1934 the United States government charged that the stock-market duel between Samuel Insull and Cyrus Eaton cost the stockholders in the Insull concerns alone \$56,000,000.<sup>9</sup>

Possibly the reader will feel that the illustrations given are exceptional. This is possibly true, but still more extreme illustrations might have been presented. It is only necessary to remind the reader of the crash of the Insull empire or the Kreuger episode to have him realize how much more widespread and how much more serious were the failures of other investment trusts. In the case of the Insull trust insiders were allowed to make profits of more than \$3,000,000 realizing from 25 to 51 per cent in the syndicates which underwrote the Middle West shares. The public in general lost hundreds of millions.<sup>10</sup> Owen D. Young, testifying before the United States Senate Committee, stated that he believed "Mr. Insull himself was not able ultimately to understand" his own system. He added, "How can the ordinary investor, buying shares or buying obligations especially of the last companies, on the top, how can they be expected to know, or even to inform themselves, conscientious and able as they might be, really as to the value of those securities."<sup>11</sup>

#### GOLD BRICKS

Lee, Higginson and Company of Boston was so careless that it failed to audit the books of Kreuger and Toll before it sold \$50,000,000 of secured debentures to the public in 1929. It even requested the well-known firm of Ernst and Ernst to allow their names to appear as auditors on the public circular describing these debentures, although the only balance sheet that was available was one which had been sent to America by cable. Naturally, Ernst and Ernst refused. Nevertheless, the stock

was sold. The circulars carried the names of the seven banks which managed the flotation; in addition to the originator these were the Guaranty Company of New York, Brown Brothers and Company, Clark, Dodge and Company, the National City Company, Dillon, Read and Company, and the Union Trust Company of Pittsburgh. Does it not seem probable that the profit motive operated to make Lee, Higginson and Company careless? They were anxious to secure the commissions in selling the stock and they did not take the ordinary precautions to make sure that Kreuger and his companies were honest.

The extent to which the public has lost money as a result of these investment trusts can easily be seen by reading the record in Moody's Manual of Banks, Insurance, Real Estate and Investment Trusts. This shows that in the overwhelming majority of cases the prices declined by all the way from one-half to one one-hundredth of the original offering price.

#### ONE WINNER

In spite of all that has been said there are investment trusts which have come through the depression in reasonably good shape. Let us see how they operate.<sup>12</sup> Floyd B. Odlum, a Methodist minister's son, came to New York as a law clerk in the firm of Simpson, Thacher and Bartlett. In four years he was vice president of the Electric Bond and Share Company. A close friend was George H. Howard, president of the Morgan-organized United Corporation. In 1923 Odlum and Howard organized a small private investment company, investing \$10,000 each for themselves and their wives, or \$40,000 in all. This company invested its funds both in listed securities and in enterprises which were not listed on any exchange. The next year the operations had become so profitable that they were able to declare a 100 per cent dividend. In 1924 L. Boyd Hatch, Odlum's brother-in-law, came to New York from Logan, Utah, and joined Odlum and Howard in the management of this company.

Other friends from time to time joined their enterprise and invested their funds, among them Reeve Schley, vice president of the Chase National Bank, and by 1929 they had forty-five



stockholders with a total investment of about \$850,000, which had grown by that time to about \$6,000,000. In the summer of 1929 Atlas Corporation was organized, and an additional \$9,000,000 was raised by a private sale of stock among friends of the stockholders, the number of which had by then increased to about 490. When the crash of 1929 came the company had most of its assets in cash or its equivalent. In the face of falling prices Odlum refused to let funds remain idle. His group followed a new strategy. They knew that the stocks of nearly all investment trusts had been selling far below their net asset values; that is, below the actual dollar market value of the underlying securities held by those trusts. Odlum began negotiating for the purchase and control of one investment trust after another. In some instances it might have been possible for the investment trusts to liquidate themselves and turn the cash over to their stockholders, but this would have meant acknowledging defeat and a heavy loss. By selling to Atlas the sponsors of these trusts saved their faces and they could still give subscribers the hope of coming back.

When Atlas secured control of an investment trust its management would offer to exchange the shares of Atlas for the other shares of the older investment trusts. Having purchased control of the investment trust at prices below the market, they could then sell such of the securities held by the controlled investment trusts as they desired, use the cash to make new investments, and reap substantial profits. In effect, what was happening was that the stockholders of the old investment trusts were being sold out and were sharing the proceeds with the Atlas Corporation.

Goldman-Sachs Trading Corporation was one of the investment trusts which was taken over. Let us see what happened to it. The shares of the Goldman-Sachs Trading Corporation had gone to a high of \$224 in the bull market and then gone to a new low of \$1 in the depression. After Atlas acquired a substantial interest in the Goldman-Sachs Trading Corporation three-tenths of one share of Atlas was offered in exchange for each share of Goldman-Sachs Trading Corporation.

By 1934 Atlas had acquired a total of twenty-two investment trusts. Their names and dates of acquisition are as follows: Widlaw, Inc., February, 1930; All America General Corporation, June, 1930; Allied Atlas Corporation (formerly Exide Securities Corporation), August, 1930; Power and Light Securities Trust, March, 1931; Selected Stocks, Inc., March, 1931; Ungerleider Financial Corporation, April, 1931; Iroquois Share Corporation, May, 1931; General Empire Corporation, June, 1931; Jackson and Curtis Investment Associates, July, 1931; Sterling Securities Corporation, July, 1931; Securities-Allied Corporation (formerly Chatham-Phenix Allied Corporation), August, 1931; Southwestern Investors, August, 1931; Chain Store Stocks, Inc., September, 1931; National Securities Investment Company, September, 1931; Aviation Securities Corporation, December, 1931; American, British and Continental Corporation, January, 1932; Atlantic Securities Corporation, May, 1932; Federated Capital Corporation, August, 1932; Goldman-Sachs Trading Corporation (now Pacific Eastern Corporation) April, 1933; Shenandoah Corporation, April, 1933; Blue Ridge Corporation, April, 1933; and American Investors, Inc., June, 1933.

Today the Atlas reaches into nearly every aspect of the economic life of America. It is an example of the "successful" investment trust. It has prospered because of the decay and death of other investment trusts—and, as usual, insiders who started with an investment of some \$40,000, have profited richly. This is typical of the processes of capitalism. It is a highly efficient and prosperous process for Odlum, but how efficient and prosperous is it for the original investor?

#### INVENTORY AND INCENTIVE

Professor Marcus Whitman of the University of Alabama, reporting the results of a study to the American Economic Association, states that "a share of earnings for the controlling stock equity is available only in the case of 6 of 36 groups sponsored by investment banking and financial interests."<sup>13</sup>

It seems clear that while capitalism continually preaches the

necessity of the profit incentive, the greatest profits come not from production but from inside financial manipulation. The profit motive in many cases has become an incentive for stock manipulation and stock gambling. In this process the investment trust has played no mean part.

## CHAPTER VIII

### HIGHER RACKETEERING

IN testimony before the federal bankruptcy referee the resident partner of the well-known accounting firm of Ernst and Ernst, A. D. Berning admitted that in the Kreuger financial set-up, "It has recently been developed that the alleged cost of a large number of the assets was the result of a 'stepping-up' process, in the course of which the same investment would be recorded as sold by one Kreuger subsidiary to another at an ever increasing price and finally arriving on the books of Kreuger & Toll at a grossly exaggerated figure."<sup>1</sup>

In the effort of capitalism to get profits, the financial jugglery is far more wonderful and sometimes just as mystifying as anything done by our professional magicians. Indeed, as we have noted, Owen D. Young declared that he doubted if Insull himself understood the intricacies of his own financial structures. The tricks are of all sorts and the things brought out of the hat are of all kinds, but—as is the case with the professional magicians—the artists usually leave with a good deal of the public's money. It might be possible to describe a great many different forms of financial sleight-of-hand, but in this chapter we are using merely the way plant investments have been written up, stock has been watered, expenses indirectly increased, or profits concealed, together with the results.

In a sense these processes might appropriately be called higher racketeering. A racket is a dishonest enterprise carried on by daring criminals using any pressures necessary to get something for nothing. Usually it defrauds a rather limited number of individuals. Higher racketeering involves concealed methods of exploiting large numbers of people, using a wide

variety of pressures and reaping colossal profits. Whenever a public utility pads its capital figures, and so increases or maintains at excessive figures its rates to the consumer, it is guilty of higher racketeering.

For illustrative purposes we will comment on six common practices of the capitalistic system.

1. Revaluation of properties and increasing book figures.
2. Stock dividends and splitting stock.
3. Purchasing property from other companies at a far higher price than original installation costs.
4. Forming a subsidiary and paying excessive prices to the subsidiary for service or goods.
5. Failure to write off properties as they become useless for public service.
6. Capitalizing earnings.

A classic example of this tendency is, of course, the United States Steel Corporation, whose common stock was originally all water but which was gradually made to have some semblance of solid value by high prices to the consumer and low wages to the worker. By this means profits could be plowed back into the business to make the common stock valuable, although in a depression it becomes apparent that it is not always easy to maintain such watered values permanently.

#### WRITE-UP

Since we have included a chart of the Associated Gas and Electric Company on page 65, let us turn to an example as illustrated in this company. In hearings before the Federal Trade Commission, Charles Nodder, examiner in the economic division, declared that Edward J. Cheney, a New York engineer, made write-ups of \$88,103,000 in appraising the properties or investments of the Associated Gas and Electric Company. This is illustrative of the method of revaluation of properties.

The approximate amounts of the write-ups in this case are as follows:<sup>2</sup>

ASSOCIATED GAS AND ELECTRIC SYSTEM—Partial List of Write-ups of Properties and Investments Resulting from Appraisals by E. J. Cheney.

*Properties \**

Company	Date	Approximate amount of write-up
Metropolitan Edison Company (Reading, Pennsylvania) .....	1930	\$18,630,000
Staten Island Edison Company .....	1925	3,560,000
Pennsylvania Electric Company (Johnstown and Western Pennsylvania) .....	1924, etc.	2,175,000
New York State Electric and Gas Corporation (New York State outside of New York City) .....	1924	10,017,000
New England Gas and Electric Association:		
Worcester Gas Light Company .....	†	6,190,000
Cambridge Gas Light Company .....	†	11,005,000
Cambridge Electric Light Company .....	†	4,530,000
Cape and Vineyard Electric Company (Cape Cod and Martha's Vineyard) .....	†	534,000
New Hampshire Gas and Electric Company (Portsmouth) .....	†	1,683,000
Derry Electric Company (New Hampshire)....	†	206,000
New Bedford Gas and Electric Company (Massachusetts) .....	†	15,772,000
Broad River Power Company .....	1931	8,339,000
Johnstown Fuel Supply Company .....	1926	310,000
Total write-ups of properties .....		\$83,011,000

\* These include only companies which have been examined by the Federal Trade Commission and do not include properties such as Rochester Gas and Electric Company and other large companies.

† Varying dates from 1925 to 1929.

It must be borne in mind that these staggering figures and those on the next page are for one utility holding system alone.

In a report issued by the Federal Trade Commission in 1935 it was shown that this same company paid 159 times the ledger value of the shares in one deal alone. This involved a total expenditure of \$49,923,855.<sup>2a</sup>

Other examples of this form of financial wizardry follow. During the World War many concerns did work for the United States government on a cost-plus basis. This was true of the Long Island Lighting Company, which constructed the electrical equipment at Camp Upton, New York. On the conclusion of the world conflict the Long Island Company bought back, at a

## HIGHER RACKETEERING

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## ASSOCIATED GAS AND ELECTRIC SYSTEM WRITE-UPS—Continued

## Investments

Company	Date	Approximate amount of write-up
Van Wert Gas Company .....	1924-1927	\$ 194,000
Cape and Vineyard Electric Company .....	1924	389,000*
Blank (not given by Federal Trade Commission)	1927	42,000*
Blank (not given by Federal Trade Commission)	1927	122,000
Spring Brook Water Company .....	1924	293,000
Ridgefield Electric Company .....	1924	29,000
Long Island Water Corporation .....	1927	2,719,000
Wilmoth Purchase .....	1927	280,000*
Blank (not given) .....	Blank	134,000
Granville Electric Company .....	1924	104,000
Blank (not given) .....	1927	32,000
New Berlin Light and Power Company and nine others .....	1924	526,000
Granville Electric and Gas Company .....	1924	50,000
Lebanon Valley Lighting Company .....	1924	7,000
Delaware County Light and Power Company...	1924	18,000
Livingston Manor Electric Company .....	1924	25,000
Half Moon Light, Heat and Power Company...	1924	104,000
Katonah Lighting Company .....	1924	65,000*
Chatham Electric Light, Heat and Power Company .....	1924	37,000
Roxbury Light and Power Company .....	1924	6,000
Windham Valley Electric Company .....	1924	2,000*
Carmel Light and Power Company .....	1924	38,000*
Champlain Electric Company .....	1924	52,000
Cold Spring Light, Heat and Power Company..	1924	17,000*
Blank (not given) .....	Blank	20,000
Croton Falls Lighting Company .....	1924	137,000*
Consumers Electric Service Corporation .....	1924	99,000*
Consumers Electric Service Corporation .....	1925	185,000
Harlem Valley Electric Corporation .....	1926-1928	932,000
Dwaas Electric Company .....	1924	6,000*
Salem Light, Heat and Power Company .....	1924	8,000
Chasm Power Company .....	1924	149,000
Middlesex County Electric Company .....	1924	18,000
Patchogue Electric Light Company .....	1924	259,000*
†New Hampshire Gas and Electric Company...	1924	1,388,000
†Earlville Electric Light Company .....	1925	14,000
Smyrna Telephone Company .....	1928	17,000
†Smyrna Electric Company .....	1925	1,000
Maritime Electric Company .....	1927	329,000
Net write-up in investments .....		\$ 5,092,000
Write-up in properties .....		83,011,000
Grand total write-ups .....		\$88,103,000

\* Denotes write-down.

† Also included in write-ups of properties.

‡ Represents actual write-ups of property as indicated by the voucher dealing with the investment in that company.

greatly reduced figure, the material for which it had already been paid by the government, but the price carried on the company books was the original cost-plus-profit amount.<sup>3</sup> This excessive high cost paved the way for claims to maintenance or even to increase of rates with the utilities commission. So the consumer has to pay higher rates because of these tactics.

In the testimony before the United States Senate banking committee H. L. Clarke told of the formation of the General Theatres Equipment Company. In August, 1929, this company took over the International Projector Corporation. Its 1,000,000 shares of common stock had a book value of \$2,225,616, but were immediately marked up as having a value of \$28,488,600. This was a write-up of over \$26,000,000. Originally the common stock had all been water.<sup>4</sup>

An interesting example of another write-up was in the capital city of the state of Wisconsin, Madison. This is all the more impressive because Wisconsin is supposed to be one of the most progressive states in the Union. Unfortunately, higher racketeering is widespread under capitalism. Protect the consumer on one front in the warfare against exploitation, as for instance from high rates on the railroad, and exploitation breaks out on another, possibly the public-utility front.

In 1896 the Madison Gas and Electric Company purchased two utilities in the city for the sum of \$323,000. The new owners immediately wrote up the value of the property to \$750,000. They then sold a bond issue to the public for \$350,000 and kept control for themselves through \$400,000 of common stock which, of course, was pure water. The result was that on April 16, 1896, the new company had the following financial statement.<sup>5</sup>

THE MADISON GAS AND ELECTRIC COMPANY

<i>Assets</i>		<i>Liabilities</i>	
Plant Account .....	\$715,000	Capital stock .....	\$400,000
Cash .....	35,000	Bonds .....	350,000
Total .....	\$750,000	Total .....	\$750,000

In effect, therefore, the owners of the company—without having to invest a dollar of their own in it—secured the \$400,000



of common stock for nothing. What has been the result? The company was allowed to charge rates which would enable it to pay dividends on the watered stock. From 1910 to 1932 the company paid cash dividends totaling \$3,790,000 on this watered stock. In addition the company has declared stock dividends of \$1,600,000 on its common stock. Thus in effect this company has created \$2,000,000 of common stock which claims a perpetual right to extract dividends from the public. If a citizen of Madison goes into court to try and reduce the rates, his case will immediately be thrown out on the deadly charge of "taking private property without due process of law." Capitalism has apparently given this financial octopus a legal right to a perpetual income.

Operating companies were usually more conservative in their practice than holding companies but in 1935 the Federal Trade Commission reported that an examination of 91 operating companies showed "write-ups and other improperly capitalized items amounting to not less than \$842,955,000." This is a write-up of 34.2 per cent over cost.<sup>6</sup>

Let us consider a few examples of the revaluation of holding company properties. In 1927 the Electric Bond and Share Company effected a consolidation and issued three shares of "new" stock for each share of old stock. As a result, to quote from the hearings of the Federal Trade Commission, "The investments which were formerly carried by the 'old' Electric Bond and Share Company at \$148,501,290.79 were 'written up' to \$547,703,118.18, the increase representing a 'write-up' of \$399,201,827.39, an amount which almost staggers the imagination."<sup>7</sup>

The Electric Bond and Share Company secured a great deal of stock in its subsidiaries without cost. Whenever it organized a company it was likely to receive a bonus in free stock. In the case of the American Power and Light Company this amounted to 55.6 per cent of its holdings; in the Electric Power and Light Company 17.9 per cent; in the National Power and Light Company, 36.8 per cent; and in the Lehigh Power Securities Corporation, 98.7 per cent of its holdings were acquired as a bonus.<sup>8</sup>

The Southeastern Power and Light Company wrote up its

values of the common stock of the Georgia Railway and Power Company to \$230 a share. This amounted to \$28,713,660.<sup>9</sup>

The American Gas and Electric Company, according to H. D. Anderson, the assistant secretary of the company, was written up to the staggering extent of \$85,992,660.30.<sup>10</sup>

Senator Norris, in an address<sup>11</sup> in the United States Senate in 1932, when the investigations of the Federal Trade Commission were only partially completed, listed the following write-ups in addition to some of the ones we have mentioned.

Company	Write-up
Middle West Utilities *	\$30,816,770.00
New England Power Association	41,575,771.00
North American Light and Power Company	21,180,934.36
W. B. Foshay Company and subsidiaries	4,018,953.93
Georgia Power Company	33,453,500.00
Alabama Power Company	6,392,241.73
Southern Power Securities Corporation	26,898,275.47
Louisiana Gas and Electric Company of the Byllesby group *	2,013,500.00
Louisiana Power and Light Company	10,076,594.16
Mississippi Power and Light Company	10,714,544.37
Nebraska Power Company	2,521,063.35
Carolina Power and Light Company	2,414,833.79

\* Report not printed at the time address was made.

In closing the senator said:

Mr. President, what do you imagine is the total of the write-ups? How much water, how much air, have these financial jugglers changed into gold upon which they are taxing the American consumers of electricity? How much do you think, sir, it amounts to up to date, with the investigation probably not much more than half finished? Here is the grand total of the sums I have just read: \$925,985,795.26.

When we consider that these increases under the capitalistic system permit the utility companies to charge rates to pay dividends on these amounts, it is apparent that unless current practice is radically modified, as it has begun to be modified under the New Deal, the people of the United States would be compelled to pay forever on this watered evaluation. This is a form of extraction of profits from the masses of the people which far transcends any of the cruder forms of theft which are now recognized by statute as antisocial and illegal.

If public service commissions try to protect the consumer the matter is at once thrown into the courts on the charge of "taking property without due process of law." Felix Frankfurter has shown how almost impossible it has become to protect the public from excessive rates because of these financial processes. He says:

Here, then, are major aspects of the public services either wholly beyond the sphere of utility regulation or outside its competence. For the holding companies, which serve merely as a financial mechanism for controlling operating companies, are practically immune from law and certainly no state exercises an effective grip upon them. . . . Equally beyond the scope of the existing regulatory system are the schemes for draining off "profits surreptitiously in various indirect ways" through adjustment of claims for management, construction, purchasing, and financing among different units within a single system. Such transactions are either outside the bounds of present-day utility regulation, or they so complicate the situation as to evade the reach of the administrative authorities. So, arrangements between the American Telephone and Telegraph Company and the separate operating companies of the Bell System raise intricacies of finance and accounting that call for the highest skill and pertinacity in exploration. In practical result, they may involve differences of many millions in the burdens of the community or the gains of investors.<sup>12</sup>

It will be seen that Frankfurter raises questions even about such a highly respected concern as the American Telephone and Telegraph Company. If even its financial policies are doubtful it should be increasingly clear to the reader that it is the capitalistic system itself which is the criminal in the case, not any individual.

In spite of the common practice of watering stock one of the representatives of the public utilities declared, "There is not enough water in the stock of all of the power companies of the State of Missouri to wash a baby's face."<sup>13</sup> Actually, as testimony before the Federal Trade Commission showed, these practices were well-nigh universal in the public-utility field. The study of almost any of the holding companies will show that this has been common practice. For example, when the Northwestern Power Company took over the Power Corporation of New York it wrote

up its assets on its books \$16,940,175.<sup>14</sup> It is small wonder that in summarizing its conclusions in 1935 the Federal Trade Commission declared that greed was a major motive in the power mergers.<sup>14a</sup>

#### DIVIDENDS AND SPLITS

The United Illuminating Company in New Haven is considered one of the "better" public-utility systems. It increased its stock sixfold in 1926. It gave rights for the purchase of new stock in 1924, again in 1926 after the split-up, and again in 1928. It has been paying dividends steadily, and even in 1935 is paying \$4 a year. Albert Leavitt, a special assistant in the office of the department of justice at Washington, maintains that, allowing the United Illuminating Company an 8 per cent return on its property, it has still overcharged its patrons to the amount of \$5,500,394 in the years from 1925 to 1930.<sup>15</sup>

Even the New Haven Water Company, which has a rigid contract with the city, has paid 8 per cent on its stock in good years and bad alike. While it could have sold its new stock from time to time at far above par, as a rule in the past it has instead allowed the stockholders to reap the advantage. Thus the actualities of the situation are that individuals who secured their stock at par have received far more than an 8 per cent return, assuming that they sold their rights whenever new stock was issued. In the midst of the depression the water company succeeded in boosting its rates to the people in spite of a suit against such action brought by the city of New Haven.<sup>16</sup> Moreover, if the city should wish to purchase the company the price would not be determined by the amount of money which had been invested but its present much greater valuation.

It is hardly necessary to give further concrete examples of stock dividends; it is an almost universal practice in the public-utility field. Stock splitting is also extremely common. Testimony before the Federal Trade Commission showed that the American Power and Light Company had split its stock ten for one, the Lehigh Power Securities Corporation had done likewise, and the

National Power and Light Company had split its stock fifteen for one. The more conservative American Gas and Electric Company had split its stock five for one.<sup>17</sup>

#### BUYING HIGH

Many companies purchased subsidiaries or other power companies at costs far above the book value of the plants. For instance, in 1890, the Washington Power Company purchased the Edison Electric Illuminating Company and paid \$121,271.64 in excess of its book value. It also purchased the Okanogan Valley Power Company for \$110,561 more than its book value and the Nine Mile Plant for \$513,161 more than its book value.<sup>18</sup>

Now all this would not make so much difference, were it not for the fact that these excessive costs are later used in the same manner as the write-ups as a basis for excessive charges in rates to all the common people who use electricity.

Another form of higher racketeering is that of using the highly intricate holding-company structures for intercorporate trading back and forth, which likewise tends to support higher charges to the consumer. As an example of this practice take the once highly respected Insull system. John S. Bass, one of the investigators of the Federal Trade Commission, gives the facts. It seems that an Insull subsidiary made a contract with the Peabody Coal Company to supply it with 500,000 tons of coal annually at prices far above the market. The coal company was, of course, owned and controlled by the Insull Company. By this means the costs of the utility company were kept up and it could continue charging a high rate to the consumer; very happily by this means also the profits of the coal company were kept high. Since the profits of both corporations went into the Insull coffers, this proved an admirable arrangement all around, except for the public. The board of directors of the Peabody Coal Company was made up of Insull, John F. Gilchrist (vice president of the Commonwealth Edison Company, an Insull subsidiary), and Stuyvesant Peabody.<sup>19</sup>

These practices, again, would be quite amusing were it not for the fact that they disguised the exploitation which existed

and gave the public utility commissions an excuse for permitting high rates.

The director of the power companies' committee on public-utility information for Missouri, in writing confidentially to Thorne Browne (who was head of a similar committee in Nebraska) complained about some difficulties in propagandizing for the public-utility interests. Among other things he said, "What can we do when the financiers will inflate, overcapitalize, sell securities based on blue sky and hot air?"<sup>20</sup>

The New York Public Service Commission made a study of the Long Island Lighting Company.<sup>21</sup> In 1924 it purchased a brickyard for \$65,000; some time later the lighting company insisted that the yard had a reproductive value of \$350,000. This is merely another variant of the write-up technique.

#### PAYING FOR GHOSTS

Another of the various tricks of the trade of financial jugglery is the time-honored practice of failing to write off properties as they become useless for public service. For example, a street-car line owned by an electric company may be abandoned, but it can still be carried on the books and rates for electric light to the domestic consumer can be kept high enough to pay a return on the now obsolete street railway line.

#### CAPITALIZING EARNINGS

It is hardly necessary to outline further the multitudinous ways in which financial jugglery is constantly occurring under capitalism. Many of these are merely attempts to capitalize earning power. It is usually considered legitimate to push capitalization to any limit on which dividends can be paid. Promoters tend to be optimists and dreams of dividends are apt to be rosier than the reality.

This, in fact, was the excuse of the officials in the case cited of the General Theatres Equipment Company, which, after taking over the International Projector Corporation, wrote up the book value over \$26,000,000. Actually, of course, dividends by

no means justified this write-up; in fact they did not even justify adequate dividends on the original book value.

The net effect of capitalization of earnings in eras of prosperity is that both the consumers and the workers suffer. Rates to the public are kept up at an outrageously high point and in general the workers in the industry are also penalized by lower wages than would otherwise be imposed.

#### INHERENT IN THE SYSTEM

We have shown that these conditions cannot be changed by regulation under capitalism. This is apparently also the decision of J. H. Gray, past president of the American Economic Association, and Jack Levin, expert counsel for the Public Utility Commission at Washington. In their penetrating study of this problem they say:

Legal fictions and meaningless verbiage abound, and are as varied in content as are the minds of jurists engaged in this field. . . . Cases drag on for years and cost millions of dollars. Court decisions and statutory laws become confused, and effective regulation becomes impossible. There is a complete absence of any clear-cut guides or standards, that can be dignified by the term 'law'.<sup>22</sup>

It may be objected that the illustrations cited in this chapter are exceptional. The testimony given before the Federal Trade Commission and the various senatorial committees proves this is not true. We have purposely chosen illustrations from a monopolistic field which is supposed to be regulated by the state to prevent abuses. Had we taken the manufacturing field, conditions would have appeared even worse; a manufacturer can charge as much as the traffic will bear with complete impunity. Indeed, the corporation which charges so high that it makes the most profits is often considered the best. Better Business Bureaus are always on the trail of minor graft; they seldom investigate that of big business, such as the public utilities.<sup>23</sup>

It is not intended here to blame individuals for the financial hocus-pocus which has been described, but society should be wary in accepting their self-proffered idealism at face value.

Most of the rulers of the companies whose practices have been described are able to rationalize quite successfully that higher racketeering is really in the public interest. For example, Samuel Insull, in his speeches specially printed and presented by him to Yale University, declares again and again that he feels his responsibility to both stockholders and to consumers. He draws a picture of the "utility hosts," the stockholders, the bondholders, the employees and the consumers, and feels that he is giving his life in service to them. He says of his securities, "It is my duty to give my very life blood to protect them."<sup>24</sup>

No doubt Insull sincerely hypnotized himself into orating in this way, but when things went wrong he did not hesitate to flee the country and use every resource at his command to prevent being taken back to face "his consumers, his stockholders and his bondholders" in court. The United States district attorney later described his operations as a "gigantic scheme" in stock manipulation "to swindle, cheat, and defraud the public," who lost thereby \$100,000,000.<sup>25</sup>

Higher racketeering is present in varying forms in capitalistic countries all over the world. In Canada the Conservative Minister of Trade and Commerce, H. H. Stevens, was courageous enough to make a report about the practices of high finance. In the paper and pulp industry alone, he found that through financial manipulation \$34,000,000 was taken out of the industry from 1922 to 1929 and "put down into the pockets" of the "exploiters." After citing instance after instance in some of the most prominent concerns in Canada he declares, "the financial wizards who promote these measures can gouge out millions" (from the common people). The minister was promptly forced to resign and his printed report was suppressed by the government.<sup>26</sup>

Given the existing capitalistic system, it is as natural that financiers should practice financial sleight-of-hand as that a duck takes to water. Granted that the profit motive is the chief incentive, and since it is far easier to make huge profits by financial "magic" than in any other way, why should anyone be surprised if financiers use finance as a profit process? Some may believe that new legislative controls are possible which can



check abuses. This possibility may be granted. The difficulty is that as long as the capitalistic system remains and the chief drive is to secure the highest possible profits with the least possible expenditure of effort, just so long will individuals invent new forms of financial sleight-of-hand faster than members of any brain trust can devise effective new controls and secure their adoption into law.

## CHAPTER IX

### DEBT

THE last four chapters have been devoted to showing certain of the present methods of finance, more particularly in the United States—where, as pointed out by Louis D. Brandeis before he was appointed to the United States Supreme Court, to some extent there exists a financial oligarchy. The chief duties of the investment bankers are merely to manufacture credit, sell investments, and manage industry! We have shown that since the bankers are operating for profits they are of necessity warped by that motive into the most extraordinary forms of exploitation. Any of the practices sketched might be changed; even the stock exchanges might be “controlled.” This would merely mean that under the profit spur the bankers’ ingenuity would devise new methods to accomplish old ends.

### PROFIT VS. THRIFT

Among all the processes of capitalism none is more important at the present time than debt. Business leaders, in common with their progenitors, the kings and princes of the feudal era, tend to desire more and more money. If business is profitable it is only natural for its leaders to feel that if it could be enlarged it would be still more prosperous. If a business is small with relatively high costs, it may be argued that newer types of machinery would put it into the profitable class. Money is required in either case. The easiest method of securing this money is to turn to the investment banker, who can market securities. The result of this process is, as we have noted, that the largest corporations, controlling roughly half of the non-banking wealth in the United States, have sold vast quantities

of shares of stock to the public. The United States Steel Corporation has outstanding 870,325,200 common shares and 360,281,100 preferred (par value \$100); the General Electric Company, 28,845,927 of common (par \$10) and \$42,929,635 of special stock; General Motors, \$435,000,000 common (par \$10) and 1,878,366 shares preferred (no par value) and American Super-Power Corporation 8,293,005.3 shares of common, 334,991 shares of first preferred, and 235,207 shares of cumulative preference stock (all without par value).<sup>1</sup> If for any reason it is difficult to sell shares of stock, a corporation may issue bonds which have prior claim on the assets of a company.

#### DEBT GROWS

Thus, in our era of corporocracy, there has been a constant tendency for the debt of the world, both public and private, to increase until it reached the astronomical figure of some \$700,000,000,000 at the end of 1929. Although we have experienced a colossal depression since then, the debt still remains very near that figure at the present time. The world has always understood the meaning of debt, but it has only been in the modern era that we have piled up debts to such colossal proportions. It has been estimated that the total debt of the world increased 47 per cent in the seventeenth century and 466 per cent in the eighteenth century, but it increased 52,000 per cent by the end of the nineteenth century.

There is a constant ebb and flow in the debt structure as certain debts are repudiated or defaulted and new debts are incurred. Cities, states, and nations have not so much more enviable a record than some of our largest business corporations. For instance, in the past seventy-five years nineteen out of forty-eight states in America have a record of default which equals \$1,000,000,000. During the reconstruction period following the Civil War one-third of over 300 municipalities in Illinois refused to make payments on their bonds. If we were to compare losses among various classes of debts at the present time they would run something like this.<sup>2</sup>

Class of Debt	Average Defalcation per \$1,000
Governments .....	\$ 3.90
Utilities .....	4.70
Railroads .....	18.40
Consumer credit .....	20.00
Industrials .....	20.70
Real estate .....	30.00

Mortgage debts usually run for a relatively short period. The result is that from one-third to one-fifth of the total mortgage debts become due and payable every year. In 1933 the debt payment which fell due equaled roughly \$22,000,000,000. This is not far from half of the total national income. Approximately 62 per cent of all debts that fell due in 1933 were the obligations of individuals as against those of corporations. These included debts due on homes for mortgages and consumption debts. In a period of depression it is extremely difficult for the individual to meet such payments. Consequently, bankruptcy often occurs, with its loss of property. Since the credit is in the hands of the bankers, and since they are operating for private profit, there is a tendency for them to encourage corporations to issue stocks or bonds.

### How

One of the best examples of how the capitalistic system tends to increase indebtedness is given by Max Lowenthal in his study of the Chicago, Milwaukee and St. Paul Railroad, which went into receivership in 1925.<sup>8</sup> This St. Paul Railroad had been a highly profitable enterprise. It was supposed to be so secure that some 40,000 persons invested their money in its stock. Life insurance companies and savings banks owned millions of dollars worth of junior bonds. Some of the endowment of Harvard and Yale was invested in this property. One fire insurance company owned \$9,000,000 worth of its junior bonds. Although a great many insiders sold out before the receivership, the Metropolitan Life Insurance Company was among those left with most of its holdings intact.

The board of directors of the Chicago, Milwaukee and St.

Paul Railroad was nominally elected by the stockholders but actually by the board members themselves, and was therefore in reality self-perpetuating. Four interests which originally had large stock holdings—William and Percy Rockefeller, Mr. Ogden Armour, the Harkness family, and those who represented the George B. Smith estate—were the ones who had the most power. All of these interests, one by one, with the exception of the Harkness family, disposed of their St. Paul securities. The men whom they put on the board had little or no stock. The head of the New York Trust Company, M. N. Buckner, who was put on the board, bought some shares in 1923 but soon realized his mistake and sold them to the public. Of course the selling of the stock by the directors was not announced to the public or even to their associates on the board. The railroad had most of its financing done through Kuhn, Loeb and Company and the National City Bank.

The Chicago, Milwaukee and St. Paul got into difficulties because it decided to extend its railroad to the Pacific Coast in 1905. The Interstate Commerce Commission reported that the extension of the railway to the coast was really the result of rivalry between several powerful groups. The president of the railroad had estimated that it would cost only \$60,000,000. Ultimately, over four times that amount was spent. The president had been in error to the extent of some \$180,000,000, and this involved a colossal increase in debt. Since the cost of the construction was so much more than had been anticipated, the railroad began to issue questionable reports, which later led to investigation by the Interstate Commerce Commission, which found that depreciation charges were based on the theory that the equipment would last for 100 years! The Interstate Commerce Commission commented that this was wholly indefensible.

#### WHY

Expenditures were further increased by the fact that Mr. William Rockefeller, who was on the board, was also a director of the Anaconda Copper Company, of which Mr. John D. Ryan

was president. Mr. Rockefeller succeeded in placing Mr. Ryan on the board of the Chicago, Milwaukee and St. Paul. Both of these men had substantial interests in water-power projects in the west as well as holdings in the copper stock. It was therefore to their interest to see that the Chicago, Milwaukee and St. Paul Railroad was electrified, since they could sell both electric power and copper to the railroad. This they succeeded in accomplishing. The Interstate Commerce Commission in 1928 criticised these contracts severely on the ground that the railroad had to pay for power which it did not use. For example, one contract actually required the railroad to pay for roughly twice as much power as it used. From 1921 to 1924, according to its records, the St. Paul paid "at least \$1,500,000 for power which it was unable to use."

In the receivership hearings, when the power contracts were under consideration, the attorney for the St. Paul objected to questions leading to the disclosure that Mr. Ryan and Mr. Rockefeller were on the board of the power and copper companies as well as on the board of the railroad, on the ground that at that time there was no interlocking-directorate law and consequently it was not illegal. It is obvious, however, that if this practice is illegal now, it was probably bad practice before the law went into effect. Apparently, from the argument, an action is meritorious if it is legal, no matter how unfair to the public!

When the company needed more money it put out bonds rather than stocks. This was done on the theory that since the stock was paying 7 per cent it was cheaper to issue bonds. It is not known how much profit the National City Bank and Kuhn, Loeb and Company made through their operations with the St. Paul, but one refinancing transaction in 1916 netted the bankers \$1,800,000.

#### SALVAGE

When it was decided to put the railroad into receivership because it could not meet payments on its bonds, the bankers and the railroad approached Federal Judge Wilkerson in Chicago on

the matter in advance and secured his consent to name two friendly receivers. The expenses of the receivership and reorganization fees were estimated at from \$5,000,000 to \$6,500,000, although this does not include additional items amounting to several hundred thousand dollars.<sup>4</sup>

The Interstate Commerce Commission decided later to investigate the subject of the fees. The bankers and the lawyers went into the federal courts to get an injunction against the Commission's effort. To support this injunction the bankers retained some of the foremost lawyers in the United States, including the firm of Cravath-Henderson-De Gersdorff; Charles E. Hughes; and John W. Davis, head of the law firm representing J. P. Morgan and Company. The action was carried to the Supreme Court of the United States, where the majority ruled in favor of the bankers, although there was a vigorous dissent by Justice Stone, Justice Holmes, and Justice Brandeis, who said:

If such investments are impaired by receiverships . . . followed by reorganizations of excessive cost, and if railroad shareholders compelled by the necessities of their situation, must contribute to the rehabilitation of their properties excessive amounts upon which the reorganized carrier may not earn an adequate return, railroad credit in a broad sense is affected, the permanency and stability of the transportation system as a whole is impaired, and the public interest suffers.

No one familiar with the financial and corporate history of this country could say, I think, that railroad credit and the marketability of railroad securities have not been profoundly affected, for long periods of time, if not continuously, by the numerous railroad reorganizations, in the course of which junior security holders have found it impossible to save more than a remnant of their investment, and that only by the assumption of a heavy burden of expense, too often the result of wasteful and extravagant methods of reorganization.

As long as corporations are run for private profit and as long as they are financed by banking interests who are also interested in private profit, it is hard to see how situations of this kind can be prevented. Consequently, industries are continually in process of going further and further into debt because of enlargements which are not justified.

## CREDIT, DEBT AND PRODUCTION

Because American business is carried on by the use of credit, sudden and large increases in the demand for goods and consequently in prices take place in a very short period of time. If the banks are willing to extend loans credit can be expanded enormously. If business men think we are in a period of rising prices and that it is an advantageous time to buy, there is a tendency for everyone to begin buying at once, with a consequent increase of prices. When prices rise profits are large; this tends to make the business men more optimistic than ever, so that they borrow more and more money from the banks with the hope of infinitely enlarging their profits.

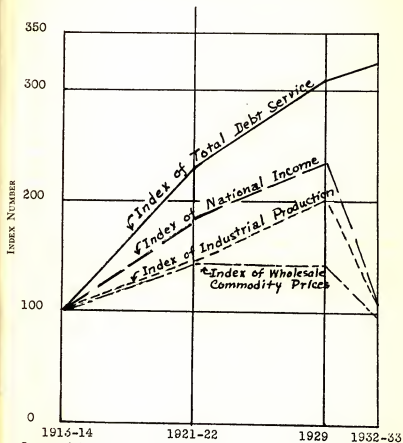
Some time this process has to reach its peak; then prices stabilize or fall. When this occurs the business cycle is reversed. Everyone wants to sell, even to sacrifice goods; production slows down or stops; workers are thrown out of work; the purchasing power contracts violently, and we are in a depression period. While prices are apt to decline at such a time, many of the fixed charges of business go on just the same. Taxes are apt to be increased rather than decreased; interest on bonds must be paid. The business cycle thus represents a reaction to supply and demand, and periods of depression and prosperity—known as the buying cycle—can occur on a large scale only where buying and selling for profit are the central feature of the economic system. Any situation which creates optimism and accelerates spending and production may create enormous expansion of business in a relatively short period. On the other hand, any series of events which creates pessimism, slows up spending, and retards production creates a downward cycle which has a cumulative effect and may prove disastrous to scores of business enterprises. The actualities of this process are clearly shown on Chart V. It will be noted that after the depression the debt service continued to increase, although national income and production were falling sharply.

Under a capitalistic economy the increase of debt appears to be inevitable. Everyone is operating for profit, and, since one can



CHART V

COMPARATIVE CHANGES SINCE 1913  
IN DEBT SERVICE, INCOME,  
PRODUCTION, AND PRICES  
(Expressed in Index Numbers)  
1913-1933



Courtesy of the Twentieth Century Fund.

make profit on borrowed capital as readily as on money owned outright, it pays to borrow. A distinguished engineer, Bassett Jones, has calculated <sup>5</sup> that in the past 100 years debt has grown faster than production. He estimates that if we let  $t$  stand for *time*, then the ratio of increase of debt in proportion to other factors has been as follows:

Energy has grown to curve  $t^8$ .

Debt has grown to curve  $t^4$ .

Production has grown to curve  $t^3$ .

Population has grown to curve  $t^2$ .

Man hours per unit of output has grown to a curve of minus  $t^4$ .

Whether or not these exact ratios are correct, a moment's reflection will enable one to understand why some such changes have been taking place.

Professor Ogburn and others have shown that inventions are increasing in a geometric ratio because each new invention makes possible a host of others. Ever since the industrial revolution new inventions have been increasing mankind's productive power and hence his energy and output.

To anyone who thinks, it is apparent that our debt cannot permanently increase faster than production, for debt is predicated on ability to pay and if it is constantly growing faster than production there must come a time when man cannot even pay the interest on it.

#### SPECIMEN

Turning from the theory of debt to the actual concrete situation in the world, we find an enormous debt in every capitalistic country. Let us consider the United States as an example.

On the average farms are mortgaged up to 25 per cent of the value of all the farm land and buildings. If only the mortgaged farms are considered the debts approximate 40 per cent of their value.<sup>6</sup>

Urban mortgages on December 31, 1931, approximated \$35,000,000,000. In these are invested 49 per cent of the assets of savings banks and 28 per cent of the assets of life insurance

companies, and their value has sunk disastrously during the depression.<sup>7</sup>

The railroads have an indebtedness of \$13,300,000,000, or about one-half of their book value. Over 10 per cent of the railroads are in receivership and about one-fourth of the funded debt is in default or else has been temporarily saved by emergency credit advances. Approximately 40 per cent of this indebtedness is held by insurance companies, savings banks, educational and charitable agencies.<sup>8</sup>

The book value of the investments in public utility plants was \$25,000,000,000 in 1932. These values have been written up far beyond their cost, as we have shown by concrete examples. There is a long-term public-utility debt of \$14,000,000,000.<sup>9</sup>

Industrial corporations, with a plant investment of \$48,100,000,000 in 1930, had a debt of \$10,500,000,000 in 1932. The total industrial debts increased 75 per cent from 1913 to 1920 but only 21 per cent from 1920 to 1929, and actually decreased 18 per cent from 1929 to 1932.<sup>10</sup>

The long-term debts of such financial corporations as life insurance companies, investment trusts, retail-sales finance companies and real-estate companies amounted to \$27,000,000,000 in 1930.<sup>11</sup>

On March 15, 1933, the gross federal debt was \$21,700,000,000, comprising long-term debts of \$14,200,000,000 and short-term debts of \$7,500,000,000. The per capita debt has increased enormously—from \$12 in 1914 to \$208.97 in 1922, although it fell to \$139.40 in 1929. The annual charge to carry the public debt is now roughly 2.53 per cent of the estimated national income.<sup>12</sup>

The total gross public debt in 1932, including the debts of the federal, state, and municipal governments, was \$36,822,004,000. This was an increase of 659.1 per cent from 1912.

The net debt of the federal government alone increased 2,054.1 per cent from 1913 to 1923, decreased 13.2 per cent from 1923 to 1932, and increased 1,769.2 per cent from 1913 to 1932.

The net debt of the states increased 586.1 per cent from 1912 to 1932. The net debt of the counties increased 514.7 per cent from 1912 to 1932. The net debt of the cities increased 208.2

per cent from 1912 to 1932. The combined debt of school districts, townships, and all other civil divisions increased 1,636.5 per cent from 1912 to 1932.<sup>13</sup>

It can at once be seen that such violent increases jeopardize the financial stability of the country in the long run. The total gross debt of the federal government outstanding on June 30, 1933, was \$22,538,672,000. According to estimates released by the White House this was increased to \$31,830,000,000 by 1935.

On December 31, 1931, the total short-term business debts (those maturing within a year) were estimated to be \$98,500,000,000.<sup>14</sup>

On June 30, 1932, the bank debt was \$47,000,000,000, with \$42,000,000,000 due to depositors.<sup>15</sup>

At the beginning of 1933 household and personal debts were estimated to be \$14,400,000,000.<sup>16</sup>

So much for the facts and figures as to the make-up of the debt. Just what does this mean in the aggregate? At the beginning of 1933 the industrial production of the United States had been cut down one-half from the 1929 levels. Factory employment was 41 per cent below, wholesale commodity prices were down 37 per cent, and farm prices were less than 50 per cent of what they had been.<sup>17</sup> Yet there had been an enormous growth in the total long-term public debt. Of the grand total of this debt, \$134,000,000,000, 26 per cent represented government and 74 per cent private obligations. This aggregate sum, so vast that we cannot even visualize what it means, represents a growth of \$96,000,000,000 from the prewar figure. In fact, the long-term debts about doubled from 1913 to 1922. They increased 68 per cent from 1922 to 1929. For every \$1 in debt which we had before the war we have \$3.53 today. Considering only our long-term debts, we are now mortgaged up to 45 per cent of our entire national wealth.<sup>18</sup>

This means concretely that from 1922 to 1929 we had been piling up debts three times as fast as our wealth and income increased. This system could not go on without catastrophe, and the first crash came in 1929. In 1932, the carrying charges on

the total internal debt were equal to 20 per cent of the total national income, compared with 6 per cent before the war.<sup>19</sup>

We have not included here our foreign loans. During the war and shortly afterwards twenty different nations borrowed a total of \$10,338,000,000 from the United States. By 1929 the principal and arrears amounted roughly to \$11,600,000,000. Furthermore, reparations and loans could be collected only in some form of goods. The United States made her tariff so high that it was extremely difficult for foreign countries to make this payment.

American private loans abroad were also growing rapidly. From 1912 to 1931 they increased eight times over, while from 1922 to 1931 they increased 89 per cent. In 1929 they were about \$14,000,000,000, but in 1931 they had passed \$15,000,000,000. These, taken together with government loans, made a total owing us of some \$25,000,000,000. Nearly all the public foreign loans were in default by 1935.

A moment's calm reflection should have made American investors realize that loaning money abroad was highly precarious. In the sixty years prior to 1931, according to a member of the British Parliament, British investors had lost \$10,000,000,000 by foreign loans.<sup>20</sup> Why should Americans fare any better? The answer is they didn't.

What the United States was doing in the matter of debt creation was a normal process of capitalism. America was not alone in this policy.

"The gross local debt of the citizen of Liverpool, including every man, woman and child, is £60 (\$300) per head, which compares with £17 (\$85) in 1913."<sup>21</sup>

Taking the British prewar national debt as 100, the debt of Great Britain is now 787.<sup>22</sup>

#### WHO PAYS

It is obvious that the effect of all this is simply to place a load on the working population of America. Someone has to pay the debts. Even if they are written off someone loses. So long as debt charges eat up a good share of the returns on farm

land or on factory production the farmers and workers cannot get as much as they otherwise would.

Why did the American people permit themselves to become so heavily involved in debt? Because their leaders adopted a policy which would pour the greatest volume of profits into their own treasure chests. Under the capitalistic system, if business was highly profitable it paid to borrow and make more profits. In the same way individuals borrowed to buy stocks and bonds and so went into debt. Often they borrowed on margin accounts with brokers.

Dr. Irving Fisher quotes an individual whom he calls "one of the best informed experts" as to the causes of the depression.<sup>23</sup>

I should make American investment banking the chief villain of the piece. . . . In seeking new issues to feed to a ravenous public, disregard for the debtors' ability to pay, for the possibility of effecting payment by willing and able foreign debtors, and for the existing interests of security holders in concerns to be reorganized or consolidated, mark a major portion of the financing during the period. The governing consideration seems to have been, "Can the issue be sold at a handsome profit?"

#### DEBT AND DEPRESSION

Inevitably this process of debt creation under the capitalistic system culminates in a period of such rapid increase and over-expansion of debts that a compensating period of defaults and repudiation must follow. Debts cannot permanently increase faster than production, and Bassett Jones believes that already a new credit structure is required.<sup>24</sup>

As a result of the theory that business should be run on credit, and of the tendency of business to expand its operations very quickly during an era of prosperity, when a depression begins a concern may find itself with less capital after a period of prosperity than at the close of a depression era. No economist has yet been able to evolve any method by which we can avoid these recurring periods of prosperity and depression in a capitalistic economy. The National Bureau of Economic Research declares that since 1855 America has had twenty cyclical depressions. It is quite generally recognized that the fundamental diffi-

culty is the absence of sufficient purchasing power in the hands of consumers. But what causes this condition? Let Rexford G. Tugwell, undersecretary of agriculture, reply.

1. Lack of coördination of industries and competitive profit-seeking lead to over-production of certain articles.
2. The chief cause of depression is lack of coördination between producing power and consuming power.<sup>25</sup>

Keynes of England agrees with this reasoning, but phrases it in terms of the relation of savings to investment. If the public decides to save one-quarter of its money it can only spend three-quarters for consumption goods; but this may not take care of the amount the entrepreneurs have produced, in which case all the goods are not sold and depression begins. There is no one authority who can balance production and consumption in a capitalist economy.

The contradictions of capitalism are accentuated by the fact that in good times the bankers will loan money easily and the business entrepreneur will expand his factories in the hope of profit. On the other hand, when depression occurs loans are called and the business man contracts his whole enterprise, frequently selling goods at a loss for cash. It is almost impossible to see how these periods of prosperity and depression can be avoided so long as the entire economic machine is motivated by the desire for profits.

The new capitalism maintains that the greatest profits are made by paying the highest wages to the workers, thus building up purchasing power, and by selling goods at the lowest possible price, thus securing rapid turnover. The difficulty with this theory is that usually within a short period of time it becomes profitable for certain concerns to increase debts. Later, to meet interest requirements, they must pay low wages and charge high prices to the public, providing always the public can be induced to purchase through advertising campaigns or by other means. The system is also weak in that there is a constant tendency already noted to issue stocks in unwarranted proportions. Presidents of corporations must then try to pay dividends on this

huge accumulation of stock. This may jeopardize paying high wages to employees or establishing unemployment benefits.

Furthermore, since the largest profits can be made through financing instead of producing, there is always the tendency to use the processes of finance rather than of production to secure profits. Profits are higher with scarcity and debt than with abundance.

#### LONGEVITY

While debts should never be incurred except for the purpose of *creating* wealth, often in capitalistic countries they are created in the process of *financial manipulation*. Debts should be amortized or be self-liquidating within a reasonable length of time during the life of the object for which they are created. This principle is being violated all the time. For instance, the Chicago, Milwaukee, St. Paul and Pacific Railroad has outstanding \$72,000,000 in bonds which do not come due until 2014.<sup>20</sup>

#### RIGIDITY

In an era of corporocracy debt is merely a device for getting profits. The capital structure of corporations has grown in devious ways, real and fictitious—all of which is parasitic, taking from creative wealth, leaving less and less for distribution to others who have helped through their labor to create it.

Debt has the rigidity of steel. It is comparatively easy to lay steel in concrete but it is not so easy to remove it later. The railroads and public utilities have a heavy bonded indebtedness. Though income falls, interest on bonds must be paid.

The bonds of public utilities and railroads are held by the churches, educational institutions, savings banks, insurance companies and charitable institutions. This means that if railroad rates or public-utility rates are reduced in a depression it jeopardizes payment of interest, which at once causes a further crisis for all those who hold the bonds. The result is that even in the severe depression of the 1930's the rates of the utilities were not much reduced. In other words, the rigidity of the debt structure enormously accentuates the dangers of depression. The



effect on the farms is, of course, catastrophic, as we shall see in a later chapter.

State and local government debts are largely met from the property tax, but in times of depression the owners often cannot pay their assessments. The result is that cities and states find it difficult to continue to pay interest on their obligations. Since the debts are rigid the tendency is for municipalities to reduce the salaries of teachers and others or to let them go by default and continue to pay interest on their bonds. This, of course, immediately reduces drastically the expenditures of those affected and deepens the financial crisis.

In a depression, when security values are falling, bonds are being defaulted, and business is slumping, the banks contract their loans or try to. Everyone endeavors to secure payment on any debts owed to him in order to meet his own debts. If confidence becomes impaired in the banks the depositors may ask for their money, and since the bankers have used the money for loans they may have to close their doors. It was this total of phenomena which brought capitalism to the verge of complete collapse in 1933.

Debt is easy to expand during prosperity but hard to pay in a depression. Under capitalism the fact that it is impossible to plan on a national scale to balance production and consumption and to control debt is a major reason why recurring cycles of depression are unavoidable.

## CHAPTER X

### DISTRIBUTION AND CONSUMPTION

THREE boys were returning home from school in a small town. On the way they walked by a deserted homestead in which was a small orchard of ripe apples. They passed by without stopping. Soon afterwards they met a man who gave them two apples. The boys began to quarrel as to who should get the fruit. In the resulting fracas, both apples were lost and all three boys sustained black eyes in addition to going hungry. Yet only a block away were apples free for the taking. The rulers of mankind are much like these boys. It is a commonplace to say that the technical problems of producing abundantly have been solved. The economy of plenty is here. If man were to use even present knowledge he could organize so that everyone could have all that he needs. Instead, capitalism continues to create an economy of scarcity and people fight over the distribution.

#### PROPERTY

Consider the present wealth of America. Robert R. Doane estimates our physical resources as follows:

1,000,000,000 acres of farm land, 500,000,000 acres of forests, 100,000,000 acres of coal, copper, iron and minerals, 34 million acres of rivers and lakes, 100 million acres of urban territory, 316 million oil wells, 6½ million farms, 185 million live stock, 500 million domestic fowls, 16 thousand cities, 37 million buildings, 127 million machines—locomotives, turbines, automobiles, tractors, trucks, lathes, looms, etc., 700 million installed horsepower, 2 million miles of rural roads, 750,000 miles of surfaced highways, 250 thousand miles of railroads, 59 thousand miles of navigable waterways, 736 thousand miles of pipe lines, 160 thousand miles of electric transmission lines, 88 million miles of telephone, telegraph and cable lines.<sup>1</sup>

The inventive skill of mankind has now reached the point where the All American Technological Society reports:

We find that between ten and twelve million men and women, engaged in the various technological activities of our productive and distributive system, produce and distribute all the raw materials and finished commodities required by a population of 125 millions.<sup>2</sup>

In spite of the abundance all about us, we are living in a fool's paradise of our own construction. Read this report on the actual conditions of hunger in the city of Chicago in 1932.

#### PEOPLE

The special committee on garbage dumps found that at nine city dumps garbage was being eaten. Describing one example concretely, they say:

Around the truck which was unloading garbage and other refuse were about thirty-five men, women and children. As soon as the truck pulled away from the pile, all of them started digging with sticks, some with their hands, grabbing bits of food and vegetables.<sup>3</sup>

President Hoover's Commission in its report, "Recent Social Trends," declares that the majority of all workers in the United States are chronically threatened either with unpredictable fluctuations in buying power or with total loss of incomes through unemployment.

#### SCARCITY

The editors of *Fortune* affirm that 20,000,000 new houses are needed to meet ordinary health and decency standards. They believe 90 per cent of farmhouses, 80 per cent of village homes, and 35 per cent of city houses lack toilets, and almost as many lack running water.<sup>4</sup>

It seems almost incredible that when mankind knows how to produce all that he needs he should continue to tolerate conditions of starvation. Why is it? The answer is that capitalism is organized to make profit, not to serve mankind. It does serve mankind, but this is a by-product of making profit. Only savages produce to consume; civilized man produces to make money.

If one is trying to make profits there are many methods that are more effective than seeing that *all* are supplied; in fact, if articles become common they lose their value. Air is as necessary and useful a commodity as exists, but no one has yet discovered a method of monopolizing it. If someone did air would be ladled out at so much per cubic yard. The nearest that capitalism has come to the exploitation of air is to create slums and municipal congestion, after which air space and sunshine become valuable and profits are extracted from them.

One of the deliberate processes of capitalism is to maintain scarcity. Since profit is the end the product must be kept scarce enough to extract the greatest possible profits. This is readily seen in the diamond industry, in which the Diamond Corporation of London controls about 95 per cent of the world output. It carefully controls the supply so that diamonds will always be scarce. Even at the height of the depression, when the production had been cut almost in half, prices were only permitted to recede to \$500 a carat and they soon went back to \$650. During depression stones are stored to be released when prosperity returns.<sup>5</sup>

#### WASTE FOR PROFIT

Under the capitalist system, as we have seen, goods are produced so long as they can be sold at a profit, and the moment this becomes unprofitable production tends to cease. Furthermore, producers are not interested in manufacturing a large amount and securing a slight profit. They know that if production is reduced to the right point prices are forced up and total profits are larger. Hence they tend to keep down supply so that they can secure the maximum total profits. The Roosevelt program in agriculture is one in which the attempt is made to create scarcity so as to increase prices to the farmers. The fact that to destroy hogs, to plow under cotton, and to burn corn acreage—in a world where millions are starving—seems idiotic to the common people does not change the effort to create scarcity and so increase farmers' profits. Under capitalism this may be the best that can be done.

The central aspect of the *capitalistic distribution process* is

that it is a device to *maintain scarcity* and so maintain high profits. This may be done in a variety of ways. As we have noted in the illustration about the diamond, scarcity may be maintained by monopoly, and this method is widely practiced in the capitalistic world. Secret agreements between distributors are another process effecting the same result. Autarchy, economic nationalism, is another; and, of course, the effective weapon in this case is a high protective tariff.

Another device which is widely practiced today is to distribute flimsy (quick replacement) goods. One of the leading razor companies is reported to have spent thousands of dollars in devising a blade which would *not last too long*.<sup>6</sup>

It also pays, on the whole, to load distribution costs so as to increase the *chain of profits*. In the case of vertical trusts this means that they extract a profit at every point in the process and tend to have a substantial advantage over competitors. Edward A. Filene maintains that the spread between the retail price and the cost of manufacture today is greater than when he started in business some sixty years ago. "The price to the consumer is 3 to 300 times the factory cost," according to Stuart Chase.<sup>7</sup> Distribution involves the movement of commodities from the place of production and the handling from the time of production to the time and place of consumption.

#### DISTRIBUTION FOR THE DISTRIBUTERS

Let us see what happens in the actual production and marketing of such a necessary commodity as a loaf of bread. The Federal Trade Commission made an exhaustive study of this subject for the years 1922-1924, finding that on the average the consumer paid just over 8.549 cents per pound loaf. This survey covered 1,952 grocers in 148 cities and towns in 30 states. On a yearly basis the bread amounted to 95,000,000 pounds. The grocers averaged as their share of this price, 1.279 cents per pound, while the profit of the wholesale baker was 0.651 of a cent. The bread ingredients other than flour cost 0.921 cent, the other costs of the baker were 3.538 cents, flour transportation cost was 0.263 cent, while flour milling was 0.406. The wheat

transportation and terminal cost was 0.278 cent, the country elevator cost 0.068 cent, while the actual farmer received for all his work 1.145 cents. It will be noted that the grocers actually received more for selling the loaf of bread than the farmer who had produced the wheat. Moreover, these figures were taken during a period when the price of wheat was high. Had they been taken when wheat was at its low point the grocer would have received just as much profit, but the farmers' return would have sunk to the point where it was almost below the cost of production.

Certain manufacturers hoped that monopoly control could be secured for bread, wastes could be eliminated and prices increased. It was for these reasons that what the Trade Commission calls a "supercombination" in the baking field was formed—the Ward Food Products Corporation. This was dissolved by the United States district court on April 3, 1926.<sup>8</sup>

The methods by which the Ward Company might have driven out small competitors are shown in this report. For instance, in Kenosha, Wisconsin, the Ward Baking Company was offering one loaf of bread free with every five purchased.<sup>9</sup>

#### FROM BARTER TO FINANCE

What a far cry the distributive mechanism is today from the pioneer era!

In the early days of American life, as we have already noted, each household made and consumed its own products. We then had a use economy instead of a profit economy. The producer and the consumer were one and the same individual. Today goods are transported from all over the world to markets located in every city and town. The process is a technique for extracting profits through the exchange of things. When a customer makes purchases in a chain store such as the Great Atlantic and Pacific Tea Company, for instance, all that is really done is to exchange one article, money, for certain other kinds of articles. If a farmer goes to market with a barrel of apples and wants to get in exchange a pair of shoes, he does not go directly to the shoe shop. He first exchanges his apples for a certain amount of money and

then takes this and exchanges it for a pair of shoes. If any group in the population keeps out of circulation part of the money received, it dislocates to some degree the exchange process. Dollars withdrawn from circulation mean that people have fewer and fewer dollars to buy products.

Today men have specialized in the production of things to a high degree. The more highly specialized the production units the more dependent every individual is upon others for the wide variety of things he uses. Specialization necessitates exchange and exchange inevitably takes place in markets, and each exchange ordinarily means a profit.

In a local market such as that of a city the size of Cleveland, for instance, the Northern Ohio Food Terminal receives and distributes about \$1,000,000 worth of shipments every seven days the year round. The Coca-Cola Company in 1930 marketed almost 28,000,000 gallons of their product, for which the consuming public paid over \$41,000,000, a nickel at a time; this enabled the Coca-Cola Company to pay out \$7.50 a share on almost a million shares of common stock, besides \$3.00 on each of over 672,000 shares of A stock. The National Dairy Products Company, manufacturers of well-known dairy and creamery products, sold in 1932 over \$252,000,000 worth and paid out over \$14,000,000 in common-stock dividends. The General Foods Corporation, distributing over eighty varieties of foodstuffs, such as Postum, Grape Nuts, and Baker's Chocolate, had a gross profit of over \$46,000,000 in 1933 and paid out \$9,000,000 in dividends to common stockholders.<sup>10</sup> All of these dividends are not used for purchasing consumers' goods but may be invested in the production process. If the latter is done it means that total purchases may fall far short of total production and so cause a cycle of depression, a process we have already described.

Just how do the products in distribution get from the producer to the consumer? Let us take a concrete example, a hat manufacturer. He sells his product to a jobber. The jobber in turn sells to a wholesaler; the wholesaler sells to the retailer; and the retailer finally sells hats to the consumer. While the hats are moving out towards the consumer the dollars are moving

back to the manufacturer. Frequently all of this process is handled on credit. All those between the manufacturer and the consumer are called middlemen. Each takes his profit; hence, in an extreme case, a product might cost 300 times as much to the consumer as it cost the producer. In the case of a farmer he must first have his products—grain, cotton, livestock, etc.—hailed to a local market. There they may be bought by a shipper and stored in an elevator or warehouse. Next they are transported by rail, water, truck, express, or parcel post. They may be delivered to a terminal market where a commission man or broker handles them. Whenever he sells the goods they are again transported, this time perhaps to an industrial converter such as a miller or packer, where they are manufactured into a marketable product. Once again the articles find themselves in transportation and then perhaps in storage. They now go into the hands of a wholesaler or jobber, who transports or has them shipped to the retail store where purchases are made by the ultimate consumer. It must be remembered that each link in this chain must extract some profit in the process. No wonder that in 1929 the Class I railroads in the United States carried a total of 268,000,000 tons of agricultural products. This is over two tons per man, woman, and child in the United States. In addition they carried over 2,450,000,000 tons of other products.

In Chart VI on the opposite insert we trace the intricacies of the distribution of wheat and wheat products.<sup>11</sup> It will be noted that the speculator in futures cuts clear across the page and has a decided stake in the process. The picture would not have been much different except in details had we presented a diagram of the distribution of wool, cotton, livestock, dairy products or fruit and vegetables. The gross inequities in the distribution of milk are given in Chapter XXII (pp. 473-4).

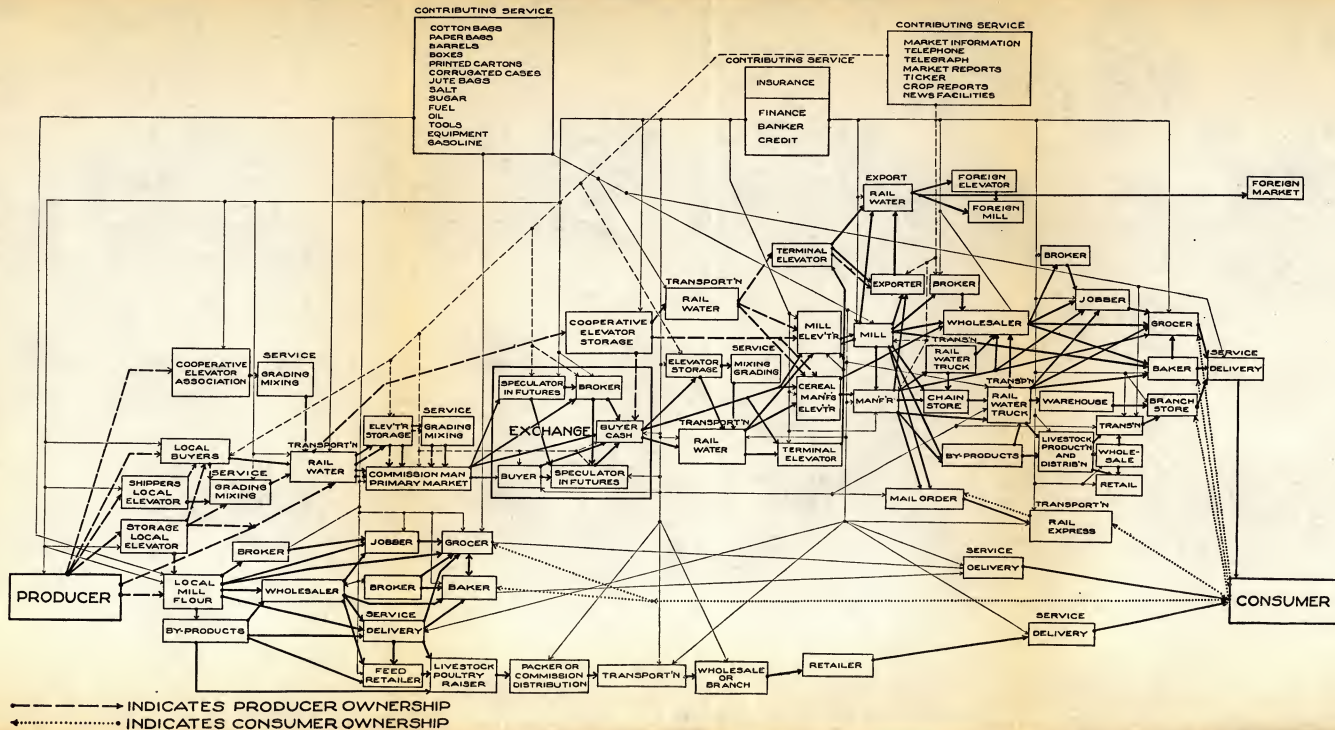
#### WHO GETS THE PROFITS

Let us consider another concrete example of distribution as given by the United States Department of Agriculture.<sup>12</sup> A farmer growing choice western apples received \$1.18 for a box. The shipping and transportation companies received \$1.07. The jobber



# DISTRIBUTION OF WHEAT AND WHEAT PRODUCTS

## JOINT COMMISSION OF AGRICULTURAL INQUIRY



received \$0.49, the wholesaler received \$0.39, the retailer received \$1.87, and the consumer paid \$5 for the box. It will thus be noted that again in this case the producer (a farmer) received less than the retailer.

Even more extreme is the difference between the cost of a ton of coal in the ground and in your cellar. A ton of Pocahontas coal in the ground is worth about \$0.10. The worker who mines the coal gets about \$0.50. The mine operator gets \$3.50—in addition to the \$0.50 paid the worker. The railroad gets \$2.64, and the retail coal yard gets \$3.36. The coal may cost \$10 to the ultimate consumer. It will thus be seen that the actual miner who digs out the coal gets 5 per cent of the amount actually paid by the consumer. The rest is eaten up by all sorts of costs and profits.

The costs of our defective capitalistic distributive mechanism are clearly revealed when one considers the rates the consumer has to pay for electric light today, although this industry is presumably no worse and may be better than many others.

This is well illustrated in New York, where the big industries buy electricity for a quarter or even a sixth of what home owners pay. The main reason for the wide spread between domestic and industrial rates is that the large users could set up their own power plants if their rates were not satisfactory. The mass of electric-light consumers are grossly exploited.

W. E. Mosher, who was placed in charge of surveying rates all over the United States for the federal government, after a careful survey of the difference between the rates in Ontario where electricity is publicly generated and in New York where it is privately generated, conservatively concludes, "Ontario municipalities are on the whole enjoying more favorable rates for electrical power than selected cities in New York State which are served by private companies."<sup>13</sup>

As a matter of fact, the average cost of domestic electric service per kilowatt hour in Ontario is 1.64 cents against 3.92 cents in New York.

Where municipalities own and operate their own public utilities, they average a lower rate than the private systems. *Public*

*Management* in 1932 reported sixty-one taxless cities in the United States which secure all the revenue they need from the profits arising out of the public-utility system.<sup>14</sup>

Gifford Pinchot, twice governor of Pennsylvania, made a study of the distribution of electric energy in the United States. He concludes that forty-one big holding companies control 82 per cent of the electric energy distributed. After mentioning some of the methods of writing up assets which we have already described in a previous chapter, he concludes:

Having forced its inflated securities on American investors, the monopoly now dodges behind these investors in much the same fashion that meaner elements of lawlessness, like common highwaymen, frequently have used their victims as shields against the bullets of policemen.<sup>15</sup>

By this, of course, he means that they try to earn profits on the water which they pumped into their utility systems, and if threatened with lower rates raise the usual issue of widows and children. He believes that at least \$210,000,000 are being unjustly extracted from the American people by extortionate rates each year. This is roughly 10 per cent of the total amount the people are paying annually for electricity.<sup>16</sup>

#### WHO PAYS THE COST

In other words, in a capitalistic economy distributors try to charge as much as possible. In the public-utility field the cost of making the public think the rates are equitable is also assessed on the consumer. For instance, from \$10,000,000 to \$38,000,000 a year is spent for advertising. Part of this is legitimate, but a large amount is spent creating goodwill and in the attempt to make the press subservient.<sup>17</sup>

Not only is this charged up in the bill the public pays, but the utilities actually squander money in a variety of other ways. The former managing director of the National Electric Light Association, M. H. Aylesworth, who has since become head of the National Broadcasting Company, speaking before the public-relations section of the National Electric Light Association, said:

All the money being spent is worth while. And may I leave this thought with you executives. Don't quit now. At the next convention have more young ladies here so as to do the job right, and let off more men from the departments so that they may come here. Don't be afraid of the expense. The public pays the expense.<sup>18</sup>

Whenever the privately owned utilities compete with public systems, their rates tend to go down. For example, in Bloomington, Illinois, where there is a municipal plant, the rate is kept down on residence lighting to somewhere between three and six cents per kilowatt hour, depending on the amount used. Not far away, where municipal competition is absent, the rate jumps to twelve cents. The tremendous reductions effected when the governmental plant at Muscle Shoals began to sell electricity are well known. In 1935 the mere threat of a small municipal plant in New York City caused the utilities to make offers to revise rates.

It is clear that the consumer often has to pay too much in the public-utility field. It is probably just as true in other fields although it may be more difficult to demonstrate.

In theory, electric-light rates are controlled by state public-utility commissions. Actually, as we have already seen, the operators have often evaded this control by means of holding companies, and sometimes they themselves have in effect controlled the commissions. Furthermore, as Professor Mosher states, even if relief could be had through the courts it is often too expensive.

When one considers that the cost of initiating and carrying through a complaint which is contested by the companies may be anywhere from \$20,000 to \$150,000 or more, it becomes clear that few individuals and even few municipalities can afford the expense.<sup>19</sup>

It is universally conceded that the wastes of marketing are very large. For example, Dr. Julius Klein, formerly assistant secretary of commerce of the United States, says, "Practical business men and theoretical students of economics are unanimous in concluding that our distribution processes lag far behind

our production methods in efficiency." Dr. Klein believes that at least \$12,000,000,000 could be lopped off the total mercantile business in this country if products were marketed more efficiently. Herbert Hoover, as secretary of commerce, in his report for 1922 declared:

The lack of . . . established grades and standards of quality adds very largely to the cost of distribution because of the necessity of buying and selling upon sample and otherwise, and because of the risk of fraud and misrepresentation and consequently larger margins of trading.

#### ADVERTISING

One of the more expensive aspects of marketing is advertising. Something of the colossal amount that is squandered in this way can be dimly comprehended if one realizes that the advertising bill of General Motors Corporation in 1928 was over \$20,000,000, while that of the American Tobacco Company was \$12,000,000.<sup>20</sup> The report of President Hoover's Commission in 1927, entitled "Recent Economic Changes," estimated that \$1,728,000,000 was spent in America in 1927 for advertising. This did not include \$75,000,000 or more spent on the radio. If we added all the various forms of advertising it is probable that we should find it was a \$2,000,000,000 industry in 1929. This would make advertising rank twelfth in importance of all the industries in the United States. Even this amount does not include sums spent for salesmen, display rooms, and the waste involved in unnecessary costs for decorative packages, and so forth.

Advertising is a technique of inducing customers to part with money by making them want something. It is using the technique of social psychology in sales promotion. It is one of the chief processes of capitalism. In every capitalistic country in the world are hundreds, if not thousands, of "ad" men. The machinery of an acquisitive society makes them indispensable to its operation. James Rorty describes the ethics of the ad man in these words: "His daily traffic in half-truths and outright deceptions is subtly and cumulatively degrading."<sup>21</sup> Advertisers usually do not attempt to prove conclusively by scientific facts that their products

are superior to others. Instead, they try all sorts of psychological devices to make the consumer feel that he is getting the best for the least possible money. For example, one advertising agency gave the following instructions to the individual who wrote copy for infant-food products.

As for this baby food stuff, for God's sake put some sob stuff in it. You know. And make it beautiful, too. Make it beautiful, make the words sing. Heavens! There isn't a woman in the world that cares about facts. That kind of stuff you write for the *Woman's Home Companion*, that's what gets 'em. Tears! Make 'em weep!

But be careful, my client wants us to be honest in this thing. Tell 'em always to go to a doctor if they can and get a special prescription for their own baby. If they can't do that, tell 'em how bad the milk supply is in lots of places and that they'd better use this food. And give 'em figures about the baby death rate—but don't say it flatly. You know if you just put a lot of figures in front of a woman she passes you by. If we only had the nerve to put a hearse in the ad, you couldn't keep the women away from the food.<sup>22</sup>

At the World's Fair in Chicago the writer tried to secure data about the latest and best brands of domestic oil heaters from salesmen representing one of the largest and best national concerns. He inquired regarding the number of service calls probably necessary in a single heating season if a particular machine were installed. The salesman was unable to give this information. He was equally ignorant as to the number of gallons of oil that would be required as contrasted with coal if a standard American furnace was used. The salesman said, "Most buyers aren't particularly interested in these facts, and anyhow I don't have them."

Advertising expends an enormous amount of money and effort on sales pressure to whip up demand for certain products. For example, when Coca-Cola was first introduced to the American market the standard monthly magazines carried advertisements in which one could cut out coupons for free drinks of Coca-Cola. It is common for a concern to try to make the consumer believe that a minor distinctive feature of its product is of tremendous

value. For instance, the Nash Company advertised its 1934 automobile by saying, "Twin Ignition gives 22 per cent more power." This, of course, is ridiculous because other single-ignition cars have just as great power.

James Rorty made a study of thirteen popular magazines in 1933 and 1934. These were *American Weekly*, *True Story*, *Household*, *Liberty*, *Photoplay*, *American Magazine*, *Woman's Home Companion*, *Cosmopolitan*, *Saturday Evening Post*, *Harper's Bazaar*, *Harper's Magazine*, *Nation's Business*, *Arts and Decoration*.

The study showed that buying was promoted not only in the advertisements but in the fiction, features, and editorials. For instance, a *Woman's Home Companion* story mentions a Rolls-Royce eighteen times. *Harper's Bazaar* gives free publicity in its feature section to 532 stores and products. Of the total space in the magazines 30 per cent is devoted to advertisements and 13 per cent is devoted to editorial promotion of buying. This makes a grand total of 43 per cent of the space which is rather directly devoted to advertising. In five women's magazines the total advertising space is 62 per cent. Of all the magazines examined, only two, *True Story* and *Liberty*, question the desirability of the capitalist economy. There is no criticism of business in any of the editorials.<sup>23</sup> Even the *Atlantic Monthly* in 1935 was running what appeared to be subtle propaganda for the big corporations by printing a series of articles favoring business which were actually part of their paid advertising.

Rorty quotes a study by Daniel Starch to show that the major advertising appeals are: fear, 15 per cent; sex, 9 per cent; and emulation, 14 per cent.

One of the major purposes of advertising is to overcome sales resistance and the inertia of established buying patterns. Sometimes it is to overcome the inferiority of the product. Rorty quotes an oil salesman who describes the technique of modern advertising in these words, "Always tell the truth. Tell a lot of the truth. Tell a lot more of the truth than anybody expects you to tell. Never tell the whole truth."<sup>24</sup>

## HONESTY

Ordinarily, Rorty tells us, the question of the ethics of an advertisement does not enter in. Truth is used only to the extent that it is necessitated by the ability of the buyer to detect and penalize dishonesty and deception. A girl, who after years of work in an advertising office finally resigned, was told by her employer, "You are an able person and a good worker. In my judgment you have only one fault. You are not loyal to the things you don't believe in."<sup>25</sup>

It is only fair to say that there are advertisers who are beginning to see profit values in proclaiming that they are going to maintain a higher standard of advertising ethics. For example, a large department store in New York, Gimbel Brothers, recently attempted to capitalize consumers' demand for honesty by admitting its past ethical failures in advertising:

But what we have been telling was, so to speak, "commercial truth." We would tell you quite honestly that a certain pair of curtains had been copied, in design, from a famous model, that the colors were pleasing, that the price was very low. Every word of this was scrupulously true. But we may have failed to say that the curtains would probably fade after one or two seasons of wear.

Gimbels promised to tell the whole truth from then on.

The truth in advertising is a variable matter. Listerine was first put out as an antiseptic. Later on it was advertised as a mouth wash and still later as a dandruff cure. The Coca-Cola Company, not content with enormous sales during the summer, spent thousands of dollars to create the impression that Coca-Cola was a cold-weather drink. The American Association for Wholesale Opticians appointed a committee to increase the use of eye glasses.<sup>26</sup> The committee decided that one method of doing this was to induce consumers to buy several different kinds of glasses for different functions. The result was that advertisements began to appear, headed "Style says different glasses for work, dress and play," and "To be well dressed includes appropriate glasses." The National Retail Shoe Dealers'



Association decided to spend \$4,000,000 for a national campaign to induce consumers to buy more shoes. The resulting advertising urged the consumer to have his shoes match his clothes. It induced the idea that the well-dressed man should have at least six pairs of shoes.<sup>27</sup>

Present-day distribution is a technique of mastery on the part of the profit producer who, using all the methods of herd domination, tries to compel the consumer to purchase the greatest possible quantity of goods. In this struggle social psychology, custom, the mores, and all the various eye and ear stimuli are but a means to an end.

While advertising may be very necessary to a particular business, from the standpoint of the consumer it is often unnecessary. Dr. Cook of the University of Cincinnati made a study "to discover how far the facts which a consumer should know are mentioned in the hosiery advertisements of the national brands." The results proved that rarely did any advertisements give facts regarding durability.<sup>28</sup> American consumers pay \$400,000,000 a year for hosiery. Yet the Consumers' Advisory Board of the federal government says, "Seldom can the purchaser attain any information on the durability of stockings."<sup>29</sup>

The vast array of advertisements about cigarettes is probably of little or no value to the consumer. From his viewpoint it might be said that some advertising is a parasite on business in much the same way that fleas are parasites on a dog. Often advertising actually renders a disservice to the consumer.

It is undisputed that sales methods do raise the price of goods to the consumer. For example, it has been estimated that an advertising campaign for cranberries enabled the producers to realize nearly \$3 more per barrel.<sup>30</sup> The Simcoe Poultry Farms in Ontario succeeded through advertising in selling their eggs at twenty cents a dozen above the ordinary price.<sup>31</sup> In many places identically the same product is put out in cans bearing different labels. The Federal Trade Commission reports many instances of this kind. In one case a mattress manufacturer was found to be selling five different "grades" of mattresses with five different labels and prices, but they were all the same inside. This

technique is a device to appeal to different income groups. It enables poor people to buy what they can afford and at the same time the rich people are induced to part with their money. Marshall Field and Company in Chicago once exhibited in the same glass case hand bags ranging in price from \$5 up to \$70. An official of the company explained that the purpose of the top-price bags was to make customers realize that there were such expensive articles. When a purchaser who might have intended to purchase only a \$5 bag saw there were bags costing as high as \$65 and \$70 he might be induced to pay much more than he had intended and get one for \$25.

The reports of the Federal Trade Commission show how widespread are the cruder forms of illegal and unethical behavior. The study of this Commission by Henderson devotes two chapters to some of these practices. Usually only those came to light where one business man thought another was gaining undue advantage through illegal action.

For instance, one producer had an exclusive contract with a concern having a monopoly control of aluminum production to furnish him with aluminum for washboards. A competitor began selling zinc washboards, calling them aluminum. The federal court held he could not be stopped from thus selling zinc.<sup>32</sup>

Henderson reports that since some competitors will not discontinue deceptive practices all are forced to continue them. He declares, "Indeed, so widespread and time-honored have some of these practices become . . . that the average purchaser of a product labeled 'wool' is fully aware that he is getting mostly cotton."<sup>33</sup> While this may be true of wholesale purchasers, it is doubtful if it is true of the ultimate consumer.

One widespread practice is to mark on an article a price two or three times the amount the retailer expects to receive for it. For example, a razor was marked \$3.50 although it regularly sold for \$0.45.

Another interesting case cited is that of the Royal Baking Powder Company. For years this concern had manufactured cream of tartar baking powder and even warned the consumer against phosphate. Finally, after over fifty years of selling this,

it decided to change to a phosphate product because of the expense of cream of tartar. Naturally this was rather embarrassing to the Royal Baking Powder Company and it did not too clearly apprise the public of its change of policy. Its competitors forced it before the bar of justice.

Silk can be made to appear heavier by weighting with mineral salts. An analysis of fifty silk dresses in 1931 showed that only three had no mineral weighting, while one which was sold for silk had no silk in it but was 100 per cent rayon. An analysis of the silk-goods departments of five department stores in 1934 showed that 85 per cent of the silk yard goods on sale were weighted.<sup>34</sup>

While these deceptions are not dangerous to health, similar tricks in the food industry are. The Consumers' Advisory Board lists a great many of these. For example, in the fish industry the consumer is not protected against the sale of stale fish and unsanitary methods are widespread.<sup>35</sup>

According to the Federal Trade Commission commercial bribery is well-nigh universal. Henderson says, "It seems to have been universally expected that companies selling chemicals and dyes or paints and varnishes should give to the buyer or superintendent of their customers a secret 'commission' on all purchases."<sup>36</sup>

The Commission quoted a business man who had been thirty years in an industry as saying, "I don't believe that there is a single house in it that has not had to pay bribes to hold old business or to obtain new business."

In one of the cases cited it was proved that one employee of the Victor Talking Machine Company received secret "commissions" of \$34,000 within twenty-three months.<sup>37</sup>

Even with a Federal Trade Commission it is almost impossible effectively to stop these practices in a profit economy. For instance, an attempt to stop the sale of fraudulent securities took from September 25, 1919, until June 20, 1923—almost four years between when the complaint was issued and a preliminary injunction was granted.<sup>38</sup>

## LEAKS

In Chapter IV we described some of the wastage in the production process; the unnecessary wastage in the distribution process is just as great. The Federal Trade Commission, in its admirable study on the "Wholesale Marketing of Food," portrays present wastes. In the field of food shipments from 5 to 10 per cent is spoiled because of delays.

In the retail trade most students of the problem recognize that at least two-thirds of all present stores are unnecessary.<sup>39</sup> The Rochester Milk Survey of 1912 found that all the competing milk wagons in the city traveled a total of 447 miles a day when 39.1 miles were all that were really needed. This is a wastage of over ten to one.

Brandeis long ago reported that \$1,000,000 a day was being wasted by the railroads.<sup>40</sup> A large part of this is due to cross-hauling.

Mr. Hoover, as secretary of commerce, in his 1924 report summarized the wastes in distribution as follows:

1. Unnecessary purchases and sales between consumer and producer.
2. Shipping of inferior and unsalable products.
3. Unnecessary delays.
4. Bad marketing and cross-hauling.
5. Lack of control in distribution, causing speculation and wastage in price fluctuation.
6. Destroying agricultural capital through low prices.
7. Because of all these factors, too great risk, which in turn causes a high margin of cost.

King C. Gillette, a prominent capitalist and inventor, in a volume on modern business, finds that the wastes of profit enterprise are so great that one out of eight of all those gainfully employed is engaged in unnecessary or unproductive effort.<sup>41</sup>

## QUALITY

Under a profit economy the consumer is usually in the dark and to a large extent unprotected. How can the consumer know whether the quality of an article is as it is advertised? For ex-

ample, the interest of the people in the subject of vitamins has led to the offer for sale of a great many cod-liver-oil preparations. Yet a report of the Food, Drug and Insecticide Administration of the government on these preparations stated that after an extensive survey and investigation a biological examination showed "practically all of the extracts and concentrates examined to be virtually devoid of Vitamin A and that few contained any material amount of Vitamin D." None of the advertisements for cigarettes, tooth pastes, and clothing, on which millions of dollars have been spent, give much data on which tooth paste is really most effective from a dental standpoint, or which suit of clothes wears the longest. Practically all advertisements abound in statements of the superiority of the advertised article, but there are no data to guide the customer.

#### QUANTITY

The consumer is not much better off in trying to decide how much he is getting for his money except insofar as the government has forced producers to record the standard measure on the outside of the package. It is possible to test this in almost any city in the United States. A prominent Chicago store, for instance, advertised baskets of tomatoes at "about 5 pounds."<sup>42</sup> The baskets actually contained four pounds; the price was quoted to appear at ten cents a pound when actually it was fourteen cents. Among 3,000 loaves of bread collected in sixty-seven different cities there were 105 different weights.<sup>43</sup> While writing this volume the author purchased a "pound" package of pecans already wrapped up in containers in one of our leading national drug-store chains. Just as a joke he asked the clerk to weigh the package. It actually weighed only twelve ounces and the clerk was forced to add four ounces of nuts; he declared this was the first time he had been asked to weigh the package for any customer. It is known that some butchers require their assistants to make a large part of their salaries by short weighing and overcharging. Investigators for the department of agriculture found that customers were being overcharged from a few cents to up to as high as seventy-five cents on a purchase. The Chicago

Better Business Bureau recently conducted a campaign against short weighing of coal. They reported that some dealers issued to the driver two receipts, one the actual weight of the load of coal, the other an inflated weight. If the consumer demanded that the coal be weighed before being put in the cellar he received a charge for the actual amount of coal delivered. If, on the other hand, he allowed it to be put in without checking, he was charged the inflated amount.

Most articles which are labeled as part wool were found by the Cincinnati Better Business Bureau to contain only from 5 to 7 per cent of actual wool.<sup>44</sup> On the other hand, the consumer purchasing woolen goods believes that if an article is marked part wool it is more than one-quarter wool.<sup>45</sup> The United States department of agriculture has found that meat sold in the stores of the United States may be labeled almost anything. For instance, genuine spring lamb is a term which covers any form of mutton.

Among concerns dealing in furniture and woods, 861 agreed to subscribe to a code of honest labeling and cataloguing. The National Retail Furniture Association at first agreed to subscribe to the rules, but it later withdrew its approval when the Grand River manufacturers decided not to accept them.

#### CLEVERNESS

How can the consumer know where to go to get the best product for his money? One of the best manufacturers of shirts in the United States told the writer that some of the chain stores handled a better quality for less money than any other stores at which their products were sold. The firm, he declared, was forced to sell the shirts to the chain at a reduced figure in order to get the business. Naturally, in this case, they were not advertised under the national brand name.

Investigations of the prices in different stores show wide variation in prices for the same articles. A stationery store, for instance, sold a scrap book for \$1.50; a competitor in the next block asked \$1.75 for exactly the same book. A certain model of a Simmons bed in three competing stores varied by as much

as \$2. It is the exceptional consumer that can tell the difference between firsts and seconds. Consequently the goods of poor quality are often sold at exactly the same price as goods of the best quality. The consumer is in the dark because he has no scientific tests to use in making purchases and is usually forced to judge by appearances. The National Industrial Conference Board declares that the federal government saves \$100,000,000 annually by laying down specifications and making scientific examinations of goods produced.<sup>46</sup>

The consumer is at the mercy of his ignorance, and even when he knows that one article is better than another is hardly certain that it is enough better to justify the extra price. For instance, in the matter of refrigerators, how does the consumer know that if high-grade insulation is purchased it will save the additional cost? It is estimated that an extra inch of cork insulation in a 100-pound refrigerator raises the price about \$20 but will save approximately six pounds of ice a day.<sup>47</sup> Six-ply automobile tires cost more than four-ply, but are they worth the difference?

The modern automobile contains from 20,000 to 30,000 separate parts. How can the average purchaser know accurately about the quality of all these parts? In 1934 the General Motors Company sent out an advertising pamphlet<sup>48</sup> which included a statement by Glenn Frank, president of the University of Wisconsin. It gives a five-page score card for consumer preferences on cars, but offers no adequate method of scientifically testing a General Motors product as against a Ford motor car, for instance. Here again the purchaser is left in the dark.

Because consumers have no scientific measure of variations all sorts of bargain sales are promoted which do not sell bargains at all. A store advertises a \$10 article for \$5; actually it may be worth \$4.80, but the consumer does not know the difference. For instance, one retail store was selling children's summer underwear at \$0.59 a suit. The garments did not sell well, a sale was announced, and two pairs were advertised at the special bargain price of \$1.30, at which price they were sold out of stock. In other words, the store received \$0.06 more per pair than it had previously been charging. A prominent New York depart-

ment store advertised a sale of floor lamps which had formerly been \$9.94 for the reduced price of \$4.94. Actually these lamps were the regular \$1.98 lamps which had been repainted to resemble the higher-priced variety. In one of the largest and best department stores in New York City the writer once purchased a pair of shoes stamped on the sole "100 per cent leather." A few days later, when worn in a rainstorm, the shoes literally melted away. They were made of a pressed cardboard. It does not seem possible that the department store itself could have been guilty of this flagrant dishonesty, but it does illustrate the extent to which the profit motivation can deceive even stores supposedly having competent scientific tests for their products.

A nationally known writer on advertising has declared that there are few genuine fire or bankruptcy sales, that the "average buyer would do well to consider them all fakes."<sup>49</sup>

Tests of towels priced from \$0.25 to \$1.50 showed that the most expensive ranked fourth in quality. Tests of men's cotton underwear selling at from \$1.50 to \$3.00 proved that the \$1.50 quality was superior to the \$3 variety. In buying canned goods, F. M. School, field secretary of the Tri Packers Association, purchased twenty-four cans of corn. The cans were opened and graded by a selected committee. The best grade was marked A or Fancy, with a score of over eighty-nine points. Only one can measured up to this grade and was retailed at a price of \$0.17, while many of those graded far inferior cost as high as \$0.25 a can. The average price of the Grade B cans was \$0.148 while the average price of the C cans was \$0.169. In other words, the poorest grade cost on an average more than the medium. One dealer of shoes reported that he had to sell his shoes at a higher price because actually they were inferior to the chain store variety. If he sold them at the same price as the chain store shoes the customer would realize that his were inferior. But, being overcharged \$2 a pair, the consumer thought he was getting a thinner and finer texture.

Because there is no scientific basis on which the consumer can purchase, states George K. Burgess, director of the Bureau of Standards, we have in America 300 brands of pineapple, 500 brands



of mustard, 1,000 brands of peas, 1,000 brands of canned salmon, 1,000 brands of canned peaches, 4,500 brands of canned corn, and 10,000 brands of wheat flour. How is the consumer to judge the quality of these different brands? *Under a profit economy the consumer is obviously and inevitably in the dark.*

#### RESPONSIBILITY

One of the most unfortunate features of this entire situation is that it aids inefficient and dishonest producers. Since the consumer does not know whether the article is good or bad the dishonest producer has an advantage over the producer that is honest. For instance, consider the matter of soups. One concern uses nothing but the highest quality of chicken; another hardly puts any chicken at all in its product; yet both are labeled "chicken soup." The public, however, purchases the latter product much more extensively than the former because it is better advertised. Consequently the profit motivation actually encourages dishonest producers and inferior products.

Many years ago, in the local community, if the butcher, the green grocer or apothecary sold some harmful products there was an extralegal penalty imposed. Everyone knew everyone else and the seller incurred the hostility of the community because he was assumed to be responsible. Today all this is changed. What does the manager of a chain store know about his products? Furthermore, since most products are now packaged by some national concern, how can the local proprietor be responsible for their bad condition?

#### OBSTRUCTION

The proposal has recently been made that the United States government should establish in the cabinet a secretary of consumers to head a department to protect the interest of the public. This is an admirable suggestion, but it is doubtful if vested habits of procedure as well as the vested interests will permit it to be done.

Arthur E. Morgan is trying to create in the Tennessee Valley a society with cheap homes costing only \$2,500. Each home is

to have a quarter of an acre of land and is to be equipped with electric refrigerator, electric stove, fireplace, etc. Already the public-utility owners are up in arms for fear the demonstration of cheap current will be dangerous to their interests. Other commercial interests are fearful. If charming houses can be sold for \$2,500 what becomes of the market for \$10,000 homes?

So far the N.R.A. has not solved the problem of distribution. Profit industry has been freed from the restraints of antitrust laws but the consumer has not been protected from unjust prices. Indeed, when the N.R.A. conducted hearings on price changes the testimony brought out certain dangerous trends.

1. The severe rise of prices to consumers.
2. Domination of small producers by the larger.
3. Fixation of prices by trade associations.

A concrete example is afforded by the testimony of the purchasing agent of the city of Milwaukee. The city sought bids for some \$50,000 worth of street lamps. Nine bids were received; five were identical; three others were identical but slightly lower. Two bids of independents were accepted. However, shortly afterwards, the company which received a \$30,000 contract canceled it, stating, "We are compelled to do so by our suppliers, the incandescent lamp department of the General Electric Company. They have refused to ship lamps ordered by us . . . stating . . . that we, as their agents, were not permitted to accept this business." In consequence the \$1,000 bond of the \$30,000 contractor was forfeited. Here was the General Electric Company operating under the N.R.A. to handicap a smaller concern.<sup>50</sup>

#### FADS, FOODS AND FAKES

In Chapter II on *The Case for Capitalism* it was pointed out that the consumer votes with his dollars for the products which he wishes to consume. It was therefore claimed that our economic machine is democratic, that the consumer has the final say. We have pointed out that consumers are uninformed, irresponsible, and blind. Almost every section of the capitalists is now able to evade, resist, and control in its own interests the mass demand

of the consumers. For instance, as we have shown, advertising generates demand and induces the consumer to vote for certain products whether or not he genuinely needs these articles. Often he is encouraged to take unnecessary and useless articles. In still other cases he is persuaded to take dangerous substitutes. Nowhere is this shown more clearly than in the distribution of foods and patent medicines. Until 1907 the American people had no legal protection at all against the fraudulent exploitation of drugs and foods. Since then the business interests have prevented any new act from superseding the weak law passed in that year.

When the old Pure Food Law went into effect a customer who studied the matter would have found that medicines which had been advertised as free from dangerous drugs were now forced to admit the presence of such drugs as cocaine, chloral hydrate, morphine sulphate, and acetanilid. The law usually necessitated a slight alteration of labels on the package. For instance, a company selling some kidney pills claiming to cure "kidney trouble" was prosecuted by the government. After conviction it continued to sell the same pills but the printing was changed to read, "For disordered kidney or bladder conditions."<sup>61</sup> A cure for "scrofula, erysipelas, salt rheum, eczema, pimples, syphilitic affections, mercurial taints, blotches, liver spots, tetter, and all skin diseases" was found to be nothing but sugar and the government took action against it.

Today one would normally suppose that American hospitals would be in a position to demand the best possible material for their patients. The federal Food and Drug Administration states that 5 per cent of the samples of ether now entering interstate commerce are substandard. Even some of our best hospitals do not seem to realize that under a profit economy it is necessary to safeguard the quality of such important articles as ether.

To show how dangerous the capitalistic system of distribution really is at certain points, consider the following example. The United States Army, from 1923 to 1925, refused 50,000 out of 70,000 cans of ether delivered on the contract of one manufacturer who was supposed to be the best American producer. This statement was made before a United States Senate committee of

inquiry. Although the manufacturer in this instance denied it, his evidence was vague and unconvincing. In another case the United States Army had condemned the residue of a war-time stock of ether purchased fifteen years before, and offered it for sale at auction under bond with the proviso that it should not be sold for use as an anesthetic. Nevertheless, 20,000 of these cans, bought at seven cents, were labeled, "The best that can be made, superior in vital respects to the ether of the United States Pharmacopœia," and sold at seventy cents a can to hospitals for anesthetic purposes over a period of three years from 1926 to 1929. The remainder were finally confiscated in 1931. Samples examined were found to contain peroxide (indicating deterioration) as well as acid and nonvolatile residue in excess of the amounts permitted. Mr. Cohen, who was responsible, pleaded guilty in December, 1931, and was fined \$200. In 1934 the United States department of justice was still trying to convict Cohen for conspiracy in shipping cases of bad ether. A letter from the assistant chief of the Food and Drug Administration tells of the difficulties involved.

Information as to very complicated transactions involving this ether, obtained in our investigations on these cases, was presented to the Federal Grand Jury in New Jersey following the criminal convictions. An indictment was issued, charging conspiracy to violate the Federal food and drugs act, against Sidney Cohen, Benjamin Gordon, Edward Gordon, and the firms they represented. Prosecution of this case is now in the hands of the Department of Justice, the Food and Drug Administration coöperating in supplying witnesses and information to aid in the prosecution. We have heard informally, however, that Cohen fought removal proceedings to New Jersey at a Commissioner's hearing held at New York. Removal was denied, but in a subsequent action in the District Court his removal was ordered. Our latest information is that he has appealed this decision and intends to carry the appeal to the Supreme Court, if necessary. If the Government's efforts in these proceedings are successful, we anticipate that the trial of Cohen and his associates on the conspiracy charge will follow. The Department of Justice undoubtedly has information as to the present whereabouts of Sidney Cohen.

These cases illustrate rather vividly the need for the greater penalties.<sup>52</sup>

Under the profit urge even the lives of those in hospitals are endangered because they have no adequate protection against inferior medicines and hospital supplies. In December, 1934, New York City added twenty pharmacists to its staff to protect the people from harmful drugs. Dr. E. C. Bocker, chief of the division of drug inspection, reported aspirin diluted 60 per cent, injurious and illegal hygiene tablets, and mouth washes which were only colored water.<sup>53</sup>

Even such a firm as Parke, Davis and Company sold bronchial lozenges under claims which they admitted were false when a shipment was seized by the government. One individual by the name of Paxton sold blood heaters, which he claimed would cure cancer, gonorrhea and many other diseases. It was not until twenty-two years after he began to sell that his companies were finally denied the use of the mails in 1929. Even now he can go out and organize a new concern with a new product.

The bulletins of the United States department of agriculture make interesting reading, and when one considers that they admittedly cover only the tiniest fraction of the injurious foods that are daily being sold to the American people, the extent of damage being done can perhaps faintly be recognized. The February, 1934, bulletin, for instance, cites 100 judgments, all the way from the misbranding of aspirin by the American Pharmaceutical Company to the misbranding of Yum for Headache by the Ex-Lax Manufacturing Company. This bulletin is particularly interesting because it gives the charge to the jury by the federal judge in a case where various individuals had shipped ginger containing an organic phosphorus compound which causes "ginger paralysis." Samples given to chickens produced a partial paralysis. It was proved that between March 14, 1930, and January 28, 1931, the defendants shipped twenty-nine barrels of this dangerous fluid. Three were convicted in this case and sentenced for a little over a year. They appealed their case but sentence was affirmed by the circuit court of appeals. This bulletin also cited a case of misbranding and falsehood on the part of those responsible for shipping Vapex.

So difficult is enforcement and so absurdly lax are the provi-

sions of the law that up to 1934 in all the history of the Food and Drug Act only one man had ever served a jail sentence for violation.<sup>54</sup> This would have been remedied slightly under the Tugwell Act—but it was defeated in 1934, and even if enacted into law in the future it remains to be seen how far its mild provisions will result in effective changes. In the meanwhile the people continued to be deceived and exploited although the old law has done some good.

In just one recent bulletin of the department of agriculture there were 208 judgments. Among these were twenty-nine judgments about shipments of apples having illegal amounts of arsenic and lead, eight judgments about canned beans which were mislabeled or contained food unfit for human consumption; forty-two judgments about butter which contained less than the legal minimum of butter fat; seventeen judgments about cans of salmon which were shown to consist "in whole or in part of a decomposed animal substance"; three judgments on shipments of crab meat which were shown to contain "a filthy animal substance"; four judgments on shipments of canned tomatoes, one of which was below the legal standard, another contained "decomposed and putrid vegetables, and two contained maggots." All except ten of the other judgments involved food shipments unfit for human consumption or illegal.<sup>55</sup>

It must not be supposed that these judgments involve small or relatively unknown companies only. In the bulletin cited, for instance, a judgment involving maggots was rendered against a shipment of 2,995 cases sent by the First National Stores, four separate judgments were against the Marshall Canning Company, another was against 218 cases shipped by the Alaska Salmon Company, and two separate judgments affected products of the American Stores Company.

The federal government can only inspect in the aggregate a relatively few samples of food. For forty-eight states with a population of 120 million people it only has seventy-eight inspectors in the food and drug field outside of meat packing. Most of the states try to do something in addition, although all their efforts are woefully inadequate.

The Division of Public Health in Indiana, for instance, reported that for a single month in 1934 it had sent condemnation notices to seven cream stations, fifteen dairies, one five-and-ten-cent store, one meat market, and two pasteurization plants. Five hundred and twenty-two empty milk cans were ordered withdrawn from use because of their insanitary condition and construction. During the month the laboratory chemists examined only sixty samples of food but fifteen were found to be illegal. They report "Hamburger is still being adulterated with sulphite. Some butchers use it [sulphite] to deodorize and restore the color of meats; some use it to prevent detection of decomposition; and some use it to keep the ground meat to which water has been added from being spoiled." <sup>56</sup>

It is not probable that Indiana is any worse in the matter of food than most other states. Indeed, conditions are probably better than in many because it has a more effective division of public health.

Such a flood of fake antiseptics has been distributed on the American market that the United States government has had to get out a special bulletin on "Fake Antiseptics and the Law." <sup>57</sup> The United States government says that hundreds of preparations tested "were found utterly incapable of killing the organisms or of preventing their growth. In fact, two of the alleged antiseptics actually contained live organisms, organisms which had survived in the preparation from the time of its manufacture through the channels of distribution, and were still going strong." Unfortunately, due to the pressure of commercial interests the names of the companies and the products are not given in this pamphlet.

Today the law which protects the consumer does not even apply to advertising which is detached from the package or even to pamphlets enclosed in the package. Both can legally be false and misleading. <sup>58</sup> Just so long as a bottle is correctly labeled, the billboards, the radio, the press, and the magazines can all run advertising which is false. <sup>59</sup>

It is possible to even ship bottles into a state without labels and then apply false or misleading labels; as long as the bottles

are sold in that state alone the federal law does not apply. Except for ten drugs, the manufacturer today does not need to state what drugs are present or their proportions. This means that the manufacturer can use the following poisons—among others—without mentioning them at all: strychnine, arsenic, aconite, prussic acid, and corrosive sublimate.

One concern which was lauding to the skies the therapeutic values of its spring water was haled before the federal court for making false and misleading statements. It defended its action on the ground that any water if drunk liberally would have the same medicinal effect.

The judge was affected by the fact that all advertising is misleading. He therefore held:

This label is as close an adherence to the truth as is customary in commercial labels, and speaks the truth as nearly as would be expected of any advertiser of a commercial product. . . . [many of the claims] are so extravagant as to justify the characterization of being ridiculous. No trial judge is in a position to pit his judgment against the judgment of commercial men.<sup>60</sup>

At present the law defines "drug" as applying only to that which is used for disease. Since obesity is not technically a disease, any advertisement covering pills for obesity can be circulated with impunity. For example, a combination of common salt and dried washing soda is still being sold as a cure for obesity under these directions:

Dissolve one package each day in a full hot bath. Remain in it fifteen minutes or more, dry thoroughly, and watch results. The hot bath will open the pores, and the action is to draw the fatic [sic] and uric acids out through them. You can see the fat float.<sup>61</sup>

In the federal Food and Drug Administration at Washington is an exhibit of dangerous and false patent medicines, cosmetics, and foods. It is called the "chamber of horrors." One of the exhibits is Crazy Crystals. Another is Banbar, made by the L. B. Bartlett Company of Pittsburgh; a medium-sized bottle of this medicine costs \$12 and is supposed to help the diabetic. Some



twenty-five testimonials from users of this medicine were advertised by the Bartlett Company, but the government investigated every case and displays a series of photostats showing the results. Every one of the testimonial writers died within one year of the time they wrote their testimonials and the government has the death certificates of every single one.

The federal government attempted to prosecute the L. B. Bartlett Company and secured the testimony of an international authority on diabetes that the medicine was worthless. However, the law had so many loopholes in it that the company was acquitted and is still selling its medicine.

Another exhibit is a product made by the Radalam Company of Detroit. The government reports its use may lead to "loss of appetite, nausea, insomnia, palpitation of the heart, sweating, fevers, and delirium." Renton's Hydrocin Tablets are also on display at \$1.50 a bottle. These contain a drug called cinchophen which may cause death.<sup>62</sup>

The most shocking exhibits are those of poisonous cosmetics. Here one finds a bewildering array of photographs of people who have been disfigured for life. A coal-tar dye preparation called Lash Lure cost an Ohio girl her eyesight and left her face a mass of scars.

While these exhibits may not be representative of the effects of profit-motivated industry, they are mute testimony to the difficulty of protecting the consumer in a profit economy.

The effort of the Roosevelt Administration to get a new food and drug act is typical of what happens when even palliative controls are applied. The comparatively mild Tugwell Bill was amended in the United States Congress until most of its teeth were removed, and then finally defeated. The opposition techniques which were used in this case are indicative of the real power of the profit motive. Arthur Kallet declared while the bill was under discussion, "Every advertisement sent to newspapers and magazines by many medicine makers is accompanied by the suggestion that the publication protest the new bill if it wishes to receive more such profitable advertisements."<sup>63</sup>

## PRESSURE

The United Medicine Manufacturers have been fighting the Tugwell Bill. The opponents of the bill who sent representatives to Washington to oppose it include companies selling products such as Cascarets, Ovaltine, Jacob's Ladder, Toma Tablets, Health Questions Answered, Syl-vette (E. E. Runner, who puts out this product, has already had a dozen or more judgments against his products), Nue-Ovo, Vogue Powder, Renton's Hydrocin Tablets (according to the American Medical Association many deaths have been traced to this cinchophen product), Kow-Kare, and Crazy Water Crystals. Most of these have been the subject of complaint by the Food and Drug Administration. The attorney for the last concern, a former assistant secretary of the United States treasury, declared at the public hearing, "No harm has ever resulted, or is likely to result, from the misrepresentation of the remedial or therapeutic effect of naturally produced mineral waters." <sup>64</sup> This is, of course, palpably untrue, since sufferers from genuine ailments are deluded into thinking they will be cured by drinking the mineral water; in addition they lose their money.

The steady pressure of profit interest is further shown by the fact that while the previous secretary of agriculture had ruled that no lead residue was permitted on fruit, Secretary Wallace first ruled that .014 gram was legal; then, following appeals from fruit growers, he increased this amount by almost 50 per cent.

Arthur Kallet concludes, after an exhaustive study of advertising, "Not one out of perhaps a thousand advertisements in the fields of drugs and cosmetics intended for general consumption is free from untruth or from ambiguity or inference intended to create a misleading impression." <sup>65</sup>

If this is true in a field where accuracy is essential to the very life of the consumer, what dare we hope from distribution of other products under a profit economy? F. J. Schlink, director of Consumers' Research, maintains after an exhaustive study of this whole matter, "While the profit motive continues to dominate all manufacture and distribution the exploitation of con-

sumers through various degrees of misrepresentation must be taken for granted." He adds, "A tremendous burden of disease and suffering, the loss of thousands upon thousands of lives each year, and economic losses running to billions of dollars—this is the toll being paid today for the ignorance, the indifference, and the avarice of the manufacturers."<sup>66</sup> It might be possible to find hundreds of advertisements which are accurate; but in this chapter we have been citing examples of unethical business practice, for these are inevitable concomitants of a capitalistic economy and, unfortunately, bad practices drive out good.

#### INCOME DISTRIBUTION

While any one of the evils sketched might be eliminated, the cumulative effect of the entire process of distribution is that while the profit motive remains these evils cannot be eliminated, for distributors will always think more of profits than of consumers. An even more fundamental difficulty with the capitalistic system of distribution is that it creates maldistribution of wealth. The mass of the people cannot have income enough year in and year out to consume all that is produced.

The people of the United States ordinarily get their income in one of the following ways:

1. By working to earn their dollars.
2. By drawing interest on previous savings.
3. By gambling, speculative returns.
4. By stealing.
5. By receiving gifts.

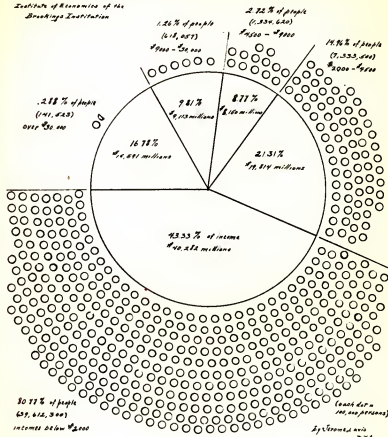
We might divide those who are gainfully employed into three groups: (1) the proprietors and salaried officials, embracing 7.5 per cent of the 49,000,000 gainfully employed; (2) the second group, salaried employees, professional persons, and clerical help, including 35.2 per cent of the gainfully employed; (3) the wage earners (farmers and workers), embracing 57.3 per cent of the gainfully employed.\* A graphic presentation of relative income returns is shown on the national income "pie" chart on

\* See Chapter XXIII for a more detailed analysis.

## CHART VII

NATIONAL INCOME PIE  
1929

Statistics from the  
Institute of Economics of the  
Brookings Institution



this page. It shows that 0.2 per cent of the most favored have nearly one-sixth of the pie, while 80.77 per cent of the least favored have to subsist on little more than two-fifths,<sup>67</sup> yet this was in the era of prosperity in the 20's.

In 1933 the average earnings of wage earners in twenty-five manufacturing industries on the basis of fifty weeks' work was only \$885.<sup>68</sup> These wages are far below the minimum budget standard for health and decency which we shall consider in a later chapter. Here it is enough to state that working-class income is insufficient to provide an adequate standard of living. Under a system where capitalists are as dominant as they are today in the United States it is the corporation executives who largely determine how much the worker shall receive. Their decisions may not be ethically just but they have far more power than any other group in our society. The National Recovery Administration has endeavored to set certain minimum standards for the payment of wages. It does not, however, affect the wages of those above the lowest rung of the income ladder except as there has been some pressure to reduce top salaries. Under our profit economy, since there is extraction of profits at every point from the raw materials to the production and distribution and final delivery to the ultimate consumer, there is in the end a serious shortage in the income paid for the services of labor.

The most complete and accurate data now available regarding consumers' income is the report on "National Income, 1929-32," published by the federal government in 1934. This shows that the total income distributed to individuals throughout the nation was \$81,000,000,000 in 1929, but had dropped to \$49,000,000,000 in 1932, a decline of 40 per cent. At the same time production income, which was \$83,000,000,000 in 1929, declined 54 per cent by the end of 1932 to \$38,300,000,000.<sup>69</sup>

In 1929 roughly 99 per cent of all the people in America had incomes of \$5,000 or less, yet 83 per cent of all the liquid wealth was in the hands of the income classes above the \$5,000 group.<sup>70</sup>

R. R. Doane, one of the leading experts in this field, believes that by 1932 the amount in the hands of the group in and under the \$5,000 level had shrunk to less than 6 per cent.

The total number gainfully employed shrank from 44,000,000 in 1929 to 34,000,000 in 1932, but the percentage of wage earners in the same period had been lowered to 58.4 per cent of the 1929 number.<sup>71</sup>

The drastic decline in the income of the wage worker is shown in the following table.

SALARIES AND WAGES PER-CAPITA, SELECTED INDUSTRIAL DIVISIONS <sup>72</sup>

Division	Absolute numbers			
	1929	1930	1931	1932
Mining:				
Salary .....	\$2,504	\$2,474	\$2,571	\$2,210
Wage .....	1,430	1,321	1,094	909
Manufacturing:				
Salary .....	2,669	2,703	2,556	2,241
Wage .....	1,300	1,221	1,084	876
Construction:				
Salary .....	2,937	2,879	2,695	2,297
Wage .....	1,771	1,715	1,540	1,151
Transportation:				
Salary .....	2,126	2,127	2,108	1,924
Wage .....	1,603	1,598	1,523	1,319
Above industries:				
Salary .....	2,567	2,589	2,474	2,175
Wage .....	1,406	1,331	1,186	959

It will be noted that wages dropped far more drastically than salaries and that the average annual income in 1932 of all wage workers in manufacturing was only \$876.

Perhaps the most revealing data regarding the distribution of wealth is given by the income-tax returns. In 1929 only 2,458,049 individuals paid an income tax—in other words, only four out of every hundred adults, yet this was in the year of our greatest prosperity. The proportion of the tax which was paid by individuals who had a salary under \$5,000 was less than 0.5 per cent.

The Brookings Institution, after an exhaustive examination, reports that in the peak year of 1929 nearly 6,000,000 families (or 21 per cent of all) received an annual income of less than \$1,000. Roughly 36,000 families at the top received as much as 11,500,000 families at the bottom of the social scale. This same study discovered that if the income of all families was raised to at least the \$2,500 level the United States would consume each year as much as was produced in the country at the peak

of production in 1929.<sup>73</sup> The study also shows the increasing concentration of income in the wealthy class. In the decade from 1919 to 1929 the proportion of incomes of \$500,000 or more increase five times over.

The bulk of consumer expenditures is made by the mass of the people in the lower brackets. In the matter of food all the individuals put together who had incomes of \$5,000 or more only spent in 1929 for food \$1,319,700,000, whereas the total spent by all the people below \$5,000 was \$21,852,300,000 or sixteen times as much. In fact, counting all consumer expenditures in 1929, those with incomes of \$5,000 and over only spent roughly some \$16,000,000,000, whereas the rest of the people spent some \$74,000,000,000.<sup>74</sup> It is small wonder, when one considers that labor income totaled \$52,000,000,000 in 1929 and was cut to \$31,000,000,000 in 1932, that capitalistic business should suffer from loss of purchasing power. While wages were thus being reduced drastically, interest payments remained almost stationary during the same period, being \$5,677,000,000 in 1929 and \$5,491,000,000 in 1932.<sup>75</sup>

If we were living in a small world where a few hundred families did all the fishing and another few hundred raised all the agricultural products, while a single "superior" family managed the exchange of all these articles, it is obvious that if a sufficiently large amount of profits in the way of fish and grain were taken by the middle family it could save a goodly supply. If some year the supply of fish and grain failed the middle family could force both those who labored in the fields and those who toiled at the nets to agree to mortgage their futures in return for present food. In effect they would then be working at a wage for the "superior" family, who would soon own all the wealth.

In American society, with its millions of families, the draining off of profits at so many thousand points ultimately leaves the consumer in a position where he is unable to purchase in sufficient quantities to keep the wheels of industry moving. Our economic machine then slows down, throwing millions of men out of work and forcing them to lose their savings. The economic machine has been geared for profits and therefore periodically

cripples the goose which lays the golden eggs. The capitalistic system is outworn because less than 1 per cent of the people, representing the owning class, are able to determine the shares of the national income pie, and they have done it so unintelligently that all America has suffered. The days of rugged individualism may be over. *Laissez faire* may have been scrapped, but still we have not learned how to distribute income so as to create mass purchasing power.

In nothing that has been said so far is there any intention of minimizing the fine service which thousands of retail stores and distributors are rendering to the public. Many of them are getting a service wage and nothing more, but they are caught in a system. In spite of themselves they have to handle products which are inferior. The writer has failed to find a single drug store in the United States, for instance, which was willing to display the posters of the American Medical Association giving the real facts about specific patent medicines.

On the whole it is hard to see any way by which an adequate distribution system can be secured except by a change in the present system. Under a profit economy is it practicable for the government scientifically to examine samples of all products and report findings to the consumer? Furthermore, under a profit economy would business permit the United States government to establish such standards and make all concerns in the United States live up to them?

A committee of experts investigated to discover whether it would be possible to pass on the fairness of price increases under the N.R.A. It found approximately 100,000 commodities of importance and perhaps 2,000 of key significance. The committee found that the United States Tariff Commission spends an average of about \$25,000 to make a cost study of a single product.<sup>76</sup>

Capitalism once educated the people to think of themselves as producers; then it tried to make them believe they were all financiers—the owners of stock and the rulers of credit. It has always tried to prevent the mass of consumers and producers from running the economic machine in their own interests.



If the profit motive could be eliminated by introducing, for instance, the consumers' coöperative movement, or some other revolution in our system of distribution, we would largely remove the incentive to distribute inferior goods. It makes little difference to a coöperative store whether or not the consumer purchases one product or another. There is no incentive to put something over on the consumer. Profits are returned to the consumer himself. It is thus in the interest of everyone to see to it that the consumer purchases only the best that his money will buy.

The most fundamental difficulty with the distribution process is that, since profit is extracted at every stage in the process, buying power is inevitably weakened to such a colossal extent that recurring periods of depression and prosperity are unavoidable. As long as the price system prevails an adequate distribution process awaits an adequate and equitable distribution of income. Can this ever be achieved under the techniques and processes of capitalism?

## CHAPTER XI

### IMPERIALISM

CAPITALISM extends its sway abroad through investments and by an interrelated network called imperialism. This is a policy of creating and maintaining profits either through the annexation of one nation by another or through economic control. It is one of the later stages of capitalistic economy, a sign that capitalism has become sophisticated, indeed is beginning to approach old age. A new, undeveloped frontier country rarely is imperialistic. Insofar as the United States represented the development of a territory which was largely unoccupied it could hardly be called imperialistic. On the other hand, the seizure of the Philippines by the United States is clearly in line with imperialistic policy, as is also the economic domination of Cuba.

Lenin, writing in 1916, has probably offered the most incisive and challenging analysis of imperialism. He there defines it as follows:

1. The concentration of production and capital, developed so highly that it creates monopolies which play a decisive role in economic life.
2. The fusion of banking capital with industrial capital and the creation, on the basis of this financial capital, of a financial oligarchy.
3. The export of capital, which has become extremely important, as distinguished from the export of commodities.
4. The formation of international capitalist monopolies which share out the world among themselves.
5. The territorial division of the whole earth completed by the greatest capitalist powers.<sup>1</sup>

Imperialism involves monopoly both within a capitalistic nation and in the partition of spheres of influence throughout the world. It has an octopus-like effect on backward people, extending

its tentacles to grasp and suck out whatever natural resources it desires.

#### ALTRUISM

In Europe the incipient beginnings of this policy came with the break from medievalism. With the new discoveries of land inhabited by backward peoples who were considered heathen, it was thought proper to exercise control over them. Bonn, writing in the "Encyclopedia of the Social Sciences," has expressed this clearly when he says, "The imperialistic creed is founded on the assumption that power is of divine origin and that its wielders are obliged to make humane or semi-divine use of it." The imperialists were nominally Christian and justified their policy on the assumption of a God-given right to spread the gospel to the heathen. Consequently, missionaries were often a concomitant of imperialism and the conquerors usually endeavored to foist on their subjects their own cultural and social systems. Imperialism is predicated on the use or threat of force. The Christian nations rely on their superior technical skill and usually feel that they are rendering service to the natives. The policy is usually thought to be in harmony with Christian teaching. Kipling, for instance, spoke of the "white man's burden." United States Senator Albert Beveridge said, "God has made us adepts in government, that we may administer government among savages and servile peoples." The biological scientists came to the rescue of the imperialists, justifying their policy on the theory that Christian races were biologically superior to native populations, that superiority enabled a race to survive, and survival itself was proof of this superiority. Imperialism therefore became moral and right. Any impartial student knows these are spurious rationalizations. To quote Bonn again, "The stronger dominated, ruled and exploited the weaker in open contradiction to the principles of Christianity and democracy expounded at home."

Imperialism is a policy which so frankly aims to gain profit for the benefit of a dominant power at the expense of the weaker that it is only because of the infinite capacity of the human mind to rationalize in its own selfish interest that ethical

defenses of the system can be maintained. No large nation has ever willingly acquiesced in having imposed on it the very practices of imperialism which it imposes on subject peoples to the accompaniment of pious moralizations. The practice of the golden rule in the international field is all but unknown.

### BUSINESS

Capitalistic enterprise is organized for profit making at home. When profits are decreasing in the home market the effort is inevitably made to secure advantage through the development of foreign markets. In the past this has usually involved the procuring of food and raw materials at very low prices from backward countries and importing them into the capitalistic nations. All profits are directly or indirectly due to the control of natural resources, tools, and labor power. But since the backward areas for colonial empires are limited in number, intense rivalries have naturally developed between different nations. At first chartered companies sought trading profits rather than markets. As time went on access to markets became equally important. The right to send slaves to Spanish colonies was considered the great British victory in the peace of Utrecht. Spain was the first to develop a modern imperialistic colonial empire designed to be entirely self-sufficient and prevent scarcity. The mercantile theory assumed that trading rights were the chief aim of foreign development; but trading rights are inevitably followed by coercion and domination to keep them secure. For instance, Dutch monopoly of the trade in spices could not be secure without complete domination of the lands in which they were produced; otherwise there might have been interference from native chiefs. Usually native chiefs were controlled either by conquest or by making them allies of imperialistic policy. Often at first some advantageous relationship was established between the native princes and the trading companies, such as generous loans, then a protectorate was set up, and ultimately the territory was annexed. Sometimes trade between a colonial land and the mother country was carried on by a system of preferential duties which favored imperial products. Colonies were held only at the

price of military preparedness and naval supremacy—a costly policy but one which could be disguised as a necessary security for a Christian power.

#### DIPLOMACY

In China military power was actually used to force opium into the country. Even railroad contracts were secured at the point of a gun. In 1897 China awarded a railway concession to a Belgian instead of a British syndicate. Lord Salisbury then ordered the British minister to demand concessions for at least six new lines. He demanded that China agree to this at once; if not, Great Britain would consider it "an act of deliberate hostility . . . and . . . act accordingly. After *consultation with the admiral* you may give them the number of days or hours you think proper, within which to send their reply."<sup>2</sup> The British fleet concentrated immediately at Hong-Kong; China acquiesced and ordered 2,800 miles of railways.

Perhaps this illustration seems extreme. Consider the more refined pressures of 1924. Under agreement with the government of Brazil a British railway company had certain freight rates which they desired to raise, but the Brazilian government refused to permit the contract to be broken. The British government immediately stepped in according to its custom with diplomatic pressure to force this concession.<sup>3</sup>

It was also found profitable to squeeze out income for the mother country by the use of native forced labor. This technique was used by the Dutch in the East Indian colonies. Later Belgium became the most notorious example in the Congo. The results involved terrible atrocities but were justified on the theory that the black man must be taught "the divine worth of labor."

Since the amount of land capable of foreign exploitation was limited, the various "Christian" nations often desired the same territory. This led the imperialists to fear one another, especially to fear having any other power controlling land adjacent to their own. Hence there was a mad scramble for unoccupied parts of the world which resulted in the partition of Africa and the occupation of the Pacific Islands. Sometimes international jealousy

prevented the partition of certain countries. This happened in the case of Egypt, Turkey, Morocco, Persia, and China. When a country could not itself get exclusive rights in any backward land it insisted on the open door, that is to say, equal rights for trade, loans, and concessions. When in 1910 the United States participated in building the Chinese railway it substituted equal rights to the great powers for the open door to all.

It was gradually found that economic power was often all that was necessary, provided military power remained as a potentiality. This technique involved making loans to native governments, no matter how corrupt they might be. Eventually European technical advisers had to be placed over the native princes. It was only a step from this to complete military control.

Where actual colonization did not occur there was usually economic penetration, which has been described as the "more crafty kid-gloved method of dominating weak and improvident nations through the insidious operations of political finance."<sup>4</sup> Eventually powerful nations proclaimed spheres of influence. In effect this was a declaration by a nation "that it [would] permit no other nation to exert political influence, and that itself [would] lead in the exploitation of natural resources"<sup>5</sup> in certain areas. In China, after the Chino-Japanese War of 1894-1895, the foreign powers divided sections of China into spheres of interest. Russia secured North Manchuria, Outer Mongolia, and Port Arthur.<sup>6</sup> Japan secured South Manchuria and Inner Mongolia, with Formosa and the Pescadores as a strategic base.<sup>7</sup> Germany secured the Shantung peninsula, Great Britain laid claim to the Yangtze Valley,<sup>8</sup> Tibet and the Szechwan province, while France secured Southwestern China.

Secretary Hay, acting for the United States in 1899, laid down the open-door policy, which did not object to spheres of influence but insisted that goods from foreign countries should compete on equal terms in China.

It is not within the scope of this treatment to trace the varying struggles in China for foreign commercial advantages, except to remind the reader that they have been going on ever since. In

recent years Japan has begun to look on China as her particular sphere of influence in much the same way that the United States has looked on South America. This has caused increasing friction between Japan and the United States.

#### COMMERCIAL ADVANTAGE

Let us sketch a few of the methods of imperialism in the United States in which capitalism has clearly played a part. As far back as 1898 the United States annexed Hawaii. As the distinguished historian Beard maintains, this was the result of "a revolution largely fomented by American interests there."<sup>9</sup> At any rate, the Hawaiian Committee of Public Safety was organized in January, 1893, with Chief Justice Dole, a United States citizen, as chairman. The United States minister, Stevens, requested a naval ship at Honolulu, and on January 16, 1893, marines were landed. The governor of the island of Oahu protested. On the day following, the Committee of Safety, under protection of United States marines, read a proclamation abrogating the Hawaiian monarchy. Within one hour afterwards, while the queen and her government were still in possession of the palace, the American minister recognized the new government. One month after the outbreak a treaty of annexation was introduced into the United States Senate. Less than a month later President Cleveland took office, withdrew the treaty, and made an investigation.<sup>10</sup> There was no dispute as to the essential facts. Not until 1898, in the Spanish-American War, was Hawaii finally annexed.

More recently *the United States government has adopted a dollar diplomacy*. Political control could be maintained ostensibly by the native government; back of it was the foreign power. President Taft defined this dollar diplomacy in 1912 in the following words:

The diplomacy of the present administration has sought to respond to modern ideas of commercial intercourse. This policy has been characterized as a substitution of dollars for bullets. It is one that appeals alike to idealistic humanitarian sentiments, to the dictates of sound policy and strategy, and to legitimate commercial aims.

This new policy was far cheaper than actual military intervention and yet it conserved for American investors their quota of profits. Under this policy business enterprise wrung concessions, by bribery or by loans to native governments, authorizing control or ownership of railways, mines, oil, and other natural resources. Samuel Crowther says that "a polite form of bribery was not unknown in many loans. It seems likely that some foreign politicians were paid, directly or indirectly, to sell to particular banking syndicates bonds which under ordinary circumstances they would have had difficulty in giving away."<sup>11</sup>

In this dollar diplomacy foreign rulers might be kept in power, but loans or even promises of military support could easily keep a ruler in line even against the interests of his own native population. In the case of the Panama Canal the United States used force to stage a revolution and then compelled the country to adopt a policy which would otherwise have been refused. Theodore Roosevelt said, seven years after the revolt in Panama:

I am interested in the Panama Canal because I started it. If I had followed the traditional conservative methods, I would have submitted a dignified state paper of probably two hundred pages to the Congress and the debate would have been going on yet. But I took the Canal Zone and let the Congress debate, and while the debate goes on, the Canal does also.<sup>12</sup>

In all American imperialistic policy it has been quite clear that commercial advantage was the aim. When America took the Philippines McKinley said frankly, in his instructions to the peace delegates at Paris:

Incidental to our tenure in the Philippines is the commercial opportunity to which American statesmanship cannot be indifferent.

Senator O. H. Platt of Connecticut said in the United States Senate:

The history of territorial expansion is the history of our nation's progress and glory. It is a matter to be proud of, not to lament. We should rejoice that Providence has given us the opportunity to extend our influence, our institutions, and our civilization into regions hitherto closed to us.<sup>13</sup>



The United States, whenever it was necessary to support dollar diplomacy by force, participated in armed intervention. This happened in Santo Domingo on behalf of the Santo Domingo Improvement Company, and in Nicaragua on behalf of Brown Brothers and J. and W. Seligman and Company. In 1915 it was undertaken in Haiti for the National City Bank.

In 1914 President Wilson refused to recognize Huerta and landed troops at Vera Cruz.

It is not necessary to examine the adventures of the United States in Nicaragua in detail, but H. N. Denny, who recently made an exhaustive investigation, declares:

Many Nicaraguans believe that under the present system Nicaragua has the disadvantages of vassalage without the advantages of a protectorate.<sup>14</sup>

Mr. Denny himself concludes:

One can't know whether Nicaragua would have had more or less peace if the United States had not intervened. But one may be pardoned for wondering if Nicaragua would have had to endure such devastating revolutions if left in command of its own destinies.<sup>15</sup>

#### STRATEGY

The United States in its imperialistic policy has taken the following steps:

1. In certain countries capital has been invested, but it has been without political significance. Canada is an outstanding example.

2. In other cases, after American capital has gone abroad, it has made demands upon foreign governments. This has been widely true in South America.

3. Often the influence of American capital has led to active interference in the internal affairs of certain countries, for example, in Hawaii and Mexico. Sometimes this has taken the form of subsidizing a revolution, as in Panama.

4. When investors have not received satisfactory treatment they apply to the United States government for support. Armed forces of the United States have intervened in Haiti, Santo Domingo, and Nicaragua.

5. After a territory accepts United States control, military occupation ceases.

Since 1919 the state department has been extraordinarily active in dollar diplomacy. It protested a British protectorate in Persia where the Sinclair oil interests were seeking a foothold.

It has opposed a monopoly of European oil interests in Mesopotamia, where the Standard Oil Company finally obtained a share.

It has opposed the attempts of China and Soviet Russia to come to an agreement on the Chinese Eastern Railroad which American finance had sought to secure for years.

It has seen to it that the United States has controlled the custom houses in Santo Domingo, Haiti and Nicaragua.

It has annexed Puerto Rico.

It has assisted in "financial annexation" of Central America and Cuba, where virtual protectorates have been established.

It has been active in South America in helping New York banking houses and carrying on a campaign for the oil interests against the attempt of Mexico to nationalize her oil resources. Rear Admiral Colby M. Chester, with the aid of the state department, secured concessions in Turkey to build 2,714 miles of railroad and to have the mineral rights for twenty kilometers on each side of the line; however, the Turkish government no longer regards the concession as valid.<sup>16</sup>

In 1934, the Senate Munitions Investigating Committee proved that the American naval mission to Peru had been virtually used as a sales agency for a submarine company which had paid thousands of dollars in graft to get the business.

#### PROMISES

Before considering certain of the contemporary forms of dollar diplomacy let us examine an instance of imperialism in action in Europe. Consider the actual conditions imposed by Great Britain in Kenya in South Africa. The natives had always lived by bartering crops and handicraft wares among themselves. Consequently, in order to force the natives to work, a tax of \$5.75 a year was imposed—although the average native family income is

only \$14.50 annually. White settlers, on the other hand, are free from all income tax. The natives must thus pay 40 per cent of their income in taxes, which can be earned only by working for the white man. Furthermore, they are required to give twenty-four days of forced labor each year. Only the whites are allowed to grow coffee for profit. No native can leave his job during his contract on penalty of imprisonment.<sup>17</sup>

In 1930 Lord Passfield, acting for the Labor government, pledged to the natives of Kenya that their tribal lands would be "reserved for the use and benefit of the natives forever." Exception was made that land could be taken for schools, hospitals, post offices, water works, or electric lighting plants; but land should never be taken for the "personal profit of any individual." Moreover, any land taken could be secured only on the consent of the local native council. This was the binding contract with Great Britain until gold was discovered. Since the native council would never give its consent to have the land taken away for the private profit of individuals, all the guarantees of the Labor government were abrogated and it was stipulated that land could be taken provided only some money were offered.<sup>18</sup> The native is helpless and without a vote. What can he do if his lands are taken away, except become a virtual slave of the white man? This is one example of British imperialism in the 1930's.

### UNREST

As a result of the Versailles treaty Germany lost her colonies, but the victors divided the inheritance among themselves. To be sure, the League of Nations put forward a theory of mandates—that rule was in the interests of the native inhabitants themselves and was to be merely transitory. It can hardly be said that this theory has been followed. Inevitably, foreign capital in mandated territory ends by doing whatever it considers most profitable to itself. In spite of this fact the World War has seriously jeopardized imperialistic rights. The war was fought ostensibly for self-determination and freedom for each country. Hence, when it was over, there was considerable unrest among subject groups. India demanded increased home rule. The war and its concom-

itants finally enabled Japan to press her claims in Manchuria in spite of the opposition of the capitalistic nations of the west.

### MODERN TECHNIQUE

In the 1930's imperialism tends more and more to confine itself to business aims. This gives it a wide scope and may mean a longer tenure. Nevertheless, imperialism inevitably tends to cause conflict, for its basic strategy is to import food and raw materials from the colonies, eat the food, manufacture the raw materials, and then send enough of the manufactured goods back to the colonies to pay for the food and raw materials imported. The rest of the manufactured articles are sold in the home market or in other world markets. If a deficit arises from charges for insurance, banking, and transportation, money is loaned to the colonies to make up the difference. Gradually, with the progress of time, the bankers set up factories in the colonial countries themselves.

This policy was successful as long as the world was prosperous, but with the business collapse beginning in the late 1920's the factory systems which had been built up were no longer able to sell their products and pay dividends. The low prices for food and raw materials on the world markets lessened their own purchases of manufactured goods and often led to repudiation of interest payments on loans.

When the British colonies began to fail to pay their \$1,750,000,000 in money it was no longer possible for the mother country to import the wheat, meat, cotton, rubber, wool, and other raw supplies which she had been in the habit of securing. Furthermore, the World War overthrew the balance of Europe by piling up huge loans to the United States. It ended forever the payment by Russia of her own vast debt. The consequent reduction of income and increase in fixed charges cost Europe possibly \$1,000,000,000 in her annual budget. For a while this situation was met by the United States making enormous loans to Europe, but with the crash of the Wall Street market in 1929 American loans ceased. Europe, after railing at Russia for repudiation, is now proceeding to do likewise.

## GENEROSITY

One typical aspect of imperialist policy is the piling up of debt by and for the imperialists. England has perhaps the greatest record of "successful" imperialism of any country in the world. Her policy in India may illustrate certain benefits accruing to that country because of Great Britain, but it also illustrates beautifully the unethical aspects of the steady growth of the Indian debt.

Capitalism always pretends that its debts are based on actual goods which were once placed at the disposal of society. As a matter of fact, no small part of the debt in India has arisen out of war which was either against or outside the interests of the Indian people.

The British East India Company ruled India until the government was taken over by the British Crown in 1858. During this period they had piled up debts amounting roughly to £70,000,000. Every time a rebellion broke out against company rule all the expenses of suppressing it were charged against the Indian people. In 1857 there was an uprising against the company; the country's debt rose by £10,000,000 before this was suppressed. There is a grim humor about strapping around the Indians a perpetual obligation arising out of the costs of suppressing Indian revolts.

M. C. Dutt, in his exhaustive treatise on "Economic History of India in the Victorian Age," says that while the East India Company was saddling on India the debt of around £70,000,000 she was exacting

a tribute from India, financially an unjust tribute, exceeding £150,000,000 not calculating interest. They [the East India Company] had also charged India with the cost of the Afghan wars, Chinese wars, and other wars outside India. Equitably, therefore, India owed nothing at the close of the Company's rule; her public debt was a myth; there was a considerable balance over £100,000,000 in her favor out of the money that had been drawn from her.

After India came under the rule of the British government the debt continued to skyrocket. Within less than twenty years, to

1877, the debt had doubled. Why? Forty million pounds was due to the "mutiny" wars in India and a large part of the rest was due to the costs of the Abyssinian War of 1867. To be sure, India had no quarrel with Abyssinia, but she was forced to send her soldiers and to pay the largest part of the bill. John Bright said of this loan:

I think that the forty millions which the revolt will cost is a grievous burden to place upon the people of India. It has come from the mismanagement of Parliament and the people of England. If every man had what was just, no doubt that forty millions would have to be paid out of the taxes levied upon the people of this country.<sup>19</sup>

While some of the debt was due to the building of railroads after 1875, an additional large amount was due to the Afghan Wars of 1878 and 1897. By 1900 the debt had risen to £224,000,000, and by the outbreak of the World War it had risen to over £307,000,000. The world conflict and its aftermath increased the debt to roughly £700,000,000 by 1924. Lajpat Rai charges that this increase of floating and funded debt of the Indian government was "all due absolutely and exclusively to the European War."<sup>20</sup>

Part of this increase was due to the voting of a £100,000,000 gift from the British Indian government to the British government at London. Naturally, the Indian people were not consulted about this gift, on which in theory they would have to pay interest in perpetuity. It is clear from the facts that the Indian debt was largely contracted not for and by the Indian people, but for and by the British people at the expense of the Indian people.

Imperialistic England knows this full well. Professor Edward A. Ross, who made a study of the Indian question at first hand, declares:

This is why the British will not for a moment consider the freeing of India. They would discuss with me the enlargement of India's self-government but not the freeing of India, because a freed India would ere long default.

In India I found the British government quite openminded as to the

quality of British administration, but never a word would they say as to the Drain, *i.e.*, the perpetual revenue Britain derives from India as "debt service." They would not even consider the origin of this debt or the morality underlying particular blocks of this vast mass of obligation. You remember our forefathers' outcry against what they termed "the funding system." What they were protesting against was a perpetual national debt and a permanent class of bondholders.<sup>21</sup>

Imperialism is in effect a form of monopoly right. It maintains a first lien on a country by debt; it controls the natural resources of the country which is in economic bondage to it. The army and the navy are the policemen which prevent a revolt of the debtors. Often the imperialist power hires natives to do its fighting for it. J. A. Hobson of England writes:

Most of the fighting by which we have won our Indian Empire has been done more recently by natives. In India, as in Egypt, great standing armies are placed under British commanders: almost all the fighting associated with our African dominions, except in the southern part, has been done for us by natives.

During the past few years India has clearly shown that it wished to be free of English rule. Gandhi believes he spoke for 80 per cent of the population. Brailsford declares that if a free plebiscite had been taken it would have shown a majority for independence. India attempted to use moral force rather than violence, but Great Britain ruthlessly suppressed the revolt. Thousands of pacifists were soundly beaten with long, stout, metal-tipped staves when they were attacked in mass meetings, in the fields, or in classes at college. In 1930 over 50,000 were imprisoned and many were beaten after arrest. Brailsford declares, "I saw broken arms, even an amputated arm, a thumb nearly severed from the hand, wounds and bruises innumerable, and traces of the deliberate infliction of disabling pain."<sup>22</sup> The Congress Party estimates that the total number arrested up to July, 1933, was roughly 100,000. The only reason the Indians suffered the armed police to suppress this revolt was because they knew that machine guns, bombing airplanes, and the British fleet itself were ready to strike if necessity called. At the Round Table

Conference England nominated the Indians who were to take part and took good care to imprison all the leaders of the Congress movement.<sup>23</sup>

Imperialism in India has done whatever was necessary to make trade and investment profitable to the white man. This has necessitated railroads, courts, and police. However, the military expenses have cost 33 per cent of the total revenue, and the police, jails, and justice have taken another 9 per cent. British rule has not yielded many dividends in or for education. Only 9 per cent has been spent for education and health together.<sup>24</sup> Even today four out of five Indians cannot read. On the other hand, British capital has gained colossal profits from its investments. Brailsford says:

Coal mines have been known to pay 100 to 120 per cent on a daily wage of 16 cents. Out of 51 jute mills, 32 paid as much as 100 per cent in one or more years between 1918 and 1927; 29 never paid less than 20 per cent; and 10 never less than 40 per cent. During the early post-war years, the profits of these jute mills ranged from 6 to 8 times their total wages bill.<sup>25</sup>

Now, while Great Britain has shrewdly made her subject natives pay for the debt incurred in conquering rebellious tribes and subjugating ever larger and larger stretches of colonial land, indeed has even made these subject colonies help to pay to finance conflicts in other parts of the globe in which England was vitally interested, quite a different process has been used in the economic imperialism of the United States.

#### THE DOLLAR BRAND

In some respects the American system represents a cruder form of blind imperialism because it lets the American people themselves pay for the loans which have been given to backward subservient groups and nations. American capitalists do not seriously object to this, for they have never hesitated to take the money of the American people, use it for their own purposes, and then leave the people holding worthless paper.

Here are the facts. In 1934 \$22,300,000,000 of government,



state, and municipal obligations were in default throughout the world, and Americans held the major part of them. Interest due and unpaid totaled well over \$12,500,000,000 and was accumulating at the rate of over \$1,000,000,000 a year. The amount is equal to \$12 for every man, woman, and child throughout the world.<sup>26</sup> This sum is only a little less than all the expenditures of the United States government since the foundation of the republic.

The bankers and financiers in America were quite willing to take the American people's money, always for a commission of course, and lend it to almost any country. Usually, as much profit as possible would be extracted from the country by the bankers. Moody's Investors Service, on July 30, 1925, published the following concrete instance.

A few years ago, a certain Latin-American province obtained a loan in the United States amounting to \$1,500,000. Bonds bore interest at the rate of 8 per cent per annum and were redeemable within 18 years from the date of issue. The issue was sold at 85 per cent. Commission and expenses in connection with the flotation, and which were borne by the State, were said to have absorbed \$243,000. In addition, the bankers deducted in advance interest for one year and sinking fund up to 1927, amounting to about \$290,000. The State received in this way a total of \$745,000, paying 8 per cent on \$1,500,000, and annual amortization of about \$60,000, a total of about \$180,000 per annum. The State is thus paying [it pays no more] 25 per cent for the money borrowed in our market. Moreover, the bankers are reported to have paid the contractors who were to carry out certain works for which the above loan was floated, an amount of \$485,000, so that there was hardly anything left for the State.<sup>27</sup>

Actually, in this case, the contractors were part of the same institution which controlled the underwriting house. When the loan became due, it was paid in full by issuing a new loan for a slightly larger amount, which enabled the underwriters to make new profits.

So eager were the American bankers for chances to float new bond issues that they competed among themselves to make loans in Germany. One American financial agent located a small town

in the northwestern part of Bavaria where they needed \$125,000 to improve the power station. The American agent persuaded the mayor that he might just as well borrow more than this and actually floated a loan of \$3,000,000 on the American market.<sup>28</sup> American bankers were given extraordinary receptions as long as money could be obtained. For example, in Italy one banker who was in the customary hurry saw the king of Italy, the pope, and Mussolini, all on the same day.<sup>29</sup>

Space prevents our giving in detail the impressive lists of loans which have been "given" by American bankers to South American republics. Frequently these were made without much regard as to whether the country could ultimately pay the debt incurred or not. In fact, in some cases the experts of the issuing bank advised against making a loan but it has been issued just the same. America has some \$100,000,000 in loans in Peru but they are now only worth one-tenth of that amount. Here is part of the report of the expert for an American banking house which nevertheless negotiated a loan and marketed it to the American people.

The condition of Government finances is positively distressing. Treasury obligations are almost impossible to collect. Government officials and employees are months in arrears in their salaries, and as one business man expressed it, the Government Treasury is "flat on its back and gasping for breath." With the small export trade continuing small, customs revenues are not of a large amount, and unless some sort of loan is forthcoming in the near future, I do not see how the Government can continue functioning on the basis of its present income.

An official of the banking house, at about the same time, had this to say in connection with a refusal to handle Peruvian loans:

As reasons for our declining the business, we cited the history of Peruvian credit, the political situation in Peru, and our feeling that the moral risk was not satisfactory. As far as the attitude of the banking house is concerned in connection with financing, it may be mentioned that the history of Peruvian credit, the political situation in Peru, and the company's feeling regarding the moral risk have hitherto caused them to avoid Peruvian financing.<sup>30</sup>

Another expert in his confidential report had this to say:

Apparently the internal debt of Peru has not yet been placed on a satisfactory footing. The internal debt of 1918, which bears 7 per cent interest, had its 1922 and 1923 amortizations in arrears early in 1925, and apparently there are also some arrears in interest causing this issue to sell around 54 per cent to 56 per cent in Lima, which is almost as low as the amortizable debt of 1898, which bears no interest and sells around 50.

As I see it there are two factors that will long retard the economic importance of Peru. First, its population of 5,500,000 is largely Indian, two-thirds of whom reside east of the Andes, and a majority consume almost no manufactured products. Second, its principal sources of wealth, the mines and oil wells, are nearly all foreign owned, and excepting for wages and taxes, no part of the value of their production remains in the country. . . .

The country's political situation is equally uncertain. President Leguia, while not having the absolute power possessed by General Gomez in Venezuela, is the last word in all things political, and usually the first word as well. . . . I discussed political possibilities in the event of his death or retirement with many business and professional men during my stay in Lima. While some, including the United States Ambassador, were optimistic, the majority, even the President's political opponents and ill-wishers, believed a revolution or worse would result.<sup>31</sup>

In spite of these reports American bankers paid a commission of over \$500,000 to the favorite son of Peru's president in order to get loan business to a total of \$100,000,000, which they promptly sold to the American people and pocketed their commissions; the loans were eventually defaulted.

Another interesting case which is illustrative of the capitalistic technique of imperialistic finance is the attempt of the Chase Securities Corporation to float a loan for Cuba in 1926 amounting to \$100,000,000. Certainly no one can charge this with being an inferior banking house. It is affiliated with the largest bank in the world and has been one of the most highly respected financial institutions in America.

The Cuban Chamber of Commerce in 1928 estimated the investment of United States capital in Cuba as 90 per cent of the total foreign investment and classified it as follows:

Enterprises	Amounts
Sugar industry .....	\$ 800,000,000
Realty holdings .....	150,000,000
Railroads .....	120,000,000
Government bonds .....	110,000,000
Public utilities .....	110,000,000
Industrials .....	50,000,000
Tobacco .....	50,000,000
Commerce .....	40,000,000
Mines .....	35,000,000
Banks .....	25,000,000
Miscellaneous .....	15,000,000
Total .....	\$1,505,000,000

In March, 1926, we find the Chase Securities Corporation trying to place a \$100,000,000 loan in Cuba when its own expert, Mr. Graves, a vice president of the Chase National Bank, reported that, "in view of the fact that their [the Cuban government's] indebtedness was already \$98,000,000 and the financial and economic condition of the country was in a deplorable state," he could not believe that the bank was really seeking to make such a loan.<sup>32</sup>

This loan was blocked by the Platt Amendment prohibiting the government from contracting any public debt to repay which the ordinary revenues of the island would be inadequate. This did not finally block loans; it merely necessitated revising them by hiring lawyers to get around the bothersome technicalities.

Although President Machado had been elected to office on an absolute pledge not to increase the indebtedness of Cuba, he was "sold" the idea of building a highway from one end of the island to the other. In order to secure foreign loans without conflicting with the Platt Amendment, special revenues were created and public-works certificates were issued which declared on their face that the government owed the contractor a certain amount. The Chase National Bank agreed to discount these certificates. It thus became so easy for the government to get money that in addition to building the road they completed a \$20,000,000 capitol with a gilt dome; then they extended the sea wall a bit farther, using additional millions. Finally, so many millions had been discounted by the Chase syndicate that they decided to sell

\$20,000,000 of these public-works certificates to the American public.<sup>33</sup>

At the senatorial hearing it was proved that in 1932 a second vice president of the Chase National Bank drew up a memorandum to his superiors asking whether in the event they were called to testify before the United States Senate they should make a "flat denial that we made any commission payment" in regard to these Cuban loans. Subsequently, they did deny having made any commission payments.<sup>34</sup>

It was proved, however, in the hearing that about two years after the election of Machado as president they had employed his son-in-law as joint manager of their bank in Cuba.<sup>35</sup> In a personal letter to other officers of the bank, James Bruce, a vice president, wrote regarding this son-in-law, Jose Obregon:

As we know from any business standpoint he is absolutely useless. He has neither any ability for banking, nor has he the slightest ability in negotiating. . . . Where the rub comes in is that if we did not pay him his salary the President would have to give him an allowance—and in times as hard as these this might be fairly difficult to do, so it would seem to me that the best thing to do at the moment would be to let things go on as they are. Rosenthal is very much concerned because he says that when he goes off on his vacation in the summer if Obregon is next in charge he will make all the bad loans all over again. . . . Conditions have entirely changed with him [Obregon] in one respect, and that is that he is not threatening to resign but is very scared that he is going to be fired. This is naturally the best way to have him, as he can do the least harm.<sup>36</sup>

It was also proved that they paid a Mr. Catlin, who "was the closest business friend of General Machado,"<sup>37</sup> a remuneration over a five-year period of \$55,000, which was charged against expenses in connection with this financing.<sup>38</sup> Besides direct payment Catlin was allowed to borrow money himself and make overdrafts which at his death amounted to over \$54,000.<sup>39</sup> The Chase interests also gave \$130,000 in private loans to President Machado.<sup>40</sup>

Bruce writing to another officer of the bank on February 25, 1931, said of this man:

Henry Catlin arrived on the scene just two days before I left, and although I have no particular objection to Henry personally, he would have complicated my position very much had he remained, because he runs in and out of the palace every little while, and is trying to get his own taxes reduced, and would be delighted to play Lady Bountiful with the funds of the Chase Bank. Another thing—that although Henry is on our advisory committee, it is impossible to talk frankly with him, as you know what you say will be repeated in the palace.<sup>41</sup>

Bruce stated, in a letter of February 23, 1931, that President Machado had told him that while there were one or two dissenting voices in the last congress, in the next one there would be no dissenting voice. His comment on this is, "I suppose the two dissenting voices are already in jail." He goes on to state that President Machado has illegally used \$9,000,000 out of a \$12,000,000 trust fund which should have been used for pensions.<sup>42</sup>

Apparently these facts did not prevent the Chase Bank from continuing to loan money to President Machado, this in spite of the fact that personal loans to the previous Cuban president by the Chase National Bank in 1926 had ended in default.<sup>43</sup>

It was proved that the legal promotion fees on some of the financing operations of the Chase interests amounted to \$120,000, paid largely to individuals influential in the Cuban government.<sup>44</sup>

In floating Cuban securities to the American people it was proved that Chase had stated to the public that there was an excess of revenues over expenditures in Cuba for six years of \$23,000,000, whereas in reality there apparently had been a deficit.<sup>45</sup>

Part of the Cuban indebtedness was held by the public and part by the bankers. Certificates held by the bankers were carefully refunded, although they did not mature until later, while those held by the public had no redemption feature in them.<sup>46</sup> Under the profit stimulus banking interests are naturally more careful of their own money than they are of the public's.

In fact, when the Chase bankers became fully aware of the distressing condition of Cuban finances, and realized that they

had millions of dollars in Cuban work certificates in their possession, they were willing to unload them on the public unless they could arrange a refunding agreement. Actually, a refunding agreement was made by which the banks supplied funds to the Cuban government in return for Cuban bonds which were promptly sold to the public. In the purchase and sale of these bonds the bankers received a spread of three points as well as commissions of \$439,907.35 on the purchase of the bonds and \$964,960 on their sale. Of course, nothing was said to the public in the prospectus of the new bonds that the government was running a deficit. The previous year it had been \$7,440,000.<sup>47</sup>

In this prospectus to the public it was stated that the bonds were to be issued to retire the indebtedness of the republic. The total indebtedness mentioned on the circular did not include the \$20,000,000 of serial certificates held by the bankers, yet the money was used to pay these off.<sup>48</sup>

The total profit to the banking group from the sale to the public of Cuban serial certificates and the fifteen-year bonds was over \$3,000,000.<sup>49</sup>

Naturally, in this economic form of imperialism the Chase interests had "to keep as tight a hold as [they] could on the fiscal policies of Cuba," to use a sentence from the memorandum of the vice president of the Chase National Bank. They had to talk over internal affairs with the president of Cuba and advise him to compromise with his enemies.<sup>50</sup>

To summarize the effects of this imperialism in Cuba one might say that the exploitation of Cuba has been thorough and disastrous in its consequences. The history of American capitalistic loans to Cuba is shown in the table on the next page.<sup>51</sup>

To avoid defaulting, the Cuban government secured money from the Chase Bank at exorbitant interest and discount rates. A vice president of the Chase National Bank estimated certain roads in Cuba would cost \$100,000,000, although an American company had previously offered to build them for \$35,000,000.

Senator King asked a vice president of the Chase Bank if he knew Machado was ruling by usurpation, by unconstitutional

Lender	Year	Amount
Speyer and Company .....	1904	\$35,000,000*
Speyer and Company .....	1909	16,500,000†
J. P. Morgan and Company.....	1914	10,000,000
J. P. Morgan and Company.....	1921	5,000,000
J. P. Morgan and Company.....	1923	50,000,000
J. P. Morgan and Company.....	1927	9,000,000
Chase National Bank .....	1927	10,000,000
Chase National Bank .....	1928	60,000,000‡
Chase National Bank .....	1930	80,000,000§

\* To make payments to veterans, \$28,000,000.

† To retire \$2,000,000 worth of internal loans, to build a Havana sewer and aqueduct.

‡ Revolving credit.

§ Converting the revolving loan.

methods, that he suppressed all opposition political parties, and that he maintained rule by military dictatorship. To all these questions the vice president replied, "No."<sup>52</sup> If we can believe his testimony he was selling millions of Cuban bonds to the American public without knowing the basic facts in the situation. He had no excuse for his ignorance because in 1930, prior to the loan, the Cuban Patriotic League had sent a protest to the president of the United States, to all members of Congress, and to the Chase Bank, that the Cuban government was illegal.

Carleton Beals, who made an exhaustive study of the Cuban situation, declares: "Nowhere else, certainly not in the United States, has rugged capitalism had a freer hand than in Cuba, yet in few places in the world are conditions quite as bad."<sup>53</sup>

The responsibility of American capitalism for the conditions is clear. Thomas W. Lamont testified before the Senate Finance Committee on December 18, 1931, that the Platt Amendment required the Cuban government to secure special approval of the American government before it could float any foreign loans. Actually, American bankers have always submitted their programs to the state department before making Cuban loans. Yet it was not long after these loans were floated to American investors that Machado fled the country and was sought for murder by the United States government.<sup>54</sup>

It will be noted that in this more modern form of economic



imperialism, the investors in Cuban bonds are the ones who suffer, although the native populations may also suffer through bad government, graft, and waste—as well as from the subsequent poverty, made more acute by the long-continued effort of the country to pay its bonded indebtedness. It should also be clear that it is to the interest of the bankers to induce the rulers of backward countries to spend their money and go into debt. because in that process the bankers are enriched.

#### CAUSE AND EFFECT

We can perhaps conclude that the capitalistic system tends to become at least partially an engine of foreign social control. Banks, the price system, profits, are its centers of power. Under the capitalistic system, if the financial interests working abroad are of sufficient size they can usually secure the coöperation of their home government. In fact, Charles A. Beard has shown that the idea of national interest has in reality been the result of the thought patterns of the major economic groups in the United States, who by this means have endeavored to increase their wealth.<sup>55</sup> Inevitably imperialism causes conflict, selfishness and hostility between countries.

It is difficult to see how some form of imperialism can ever be ended so long as capitalism remains. The theory of capitalism is to secure the maximum amount of profit with the lowest possible expenditure. It is obvious that control of natural resources (which are limited) in backward countries is desirable from a capitalistic standpoint. Consequently, the developed western countries will always tend to retain their control of these sources of their profits. Exploitation of backward peoples inevitably causes friction—first, between the native population and the conquerors; and second, between other foreign countries who are not so advantageously situated. Japan's program in Manchuria is only a copy of the action of the other civilized powers throughout the world. Already it has caused open talk of war between the United States and Japan and between Japan and Soviet Russia. Imperialism and injustice are allied and both have inherent in them the seeds of their own overthrow.

Imperialism is a means of quick profits at the expense of the inhabitants of any country. This is well illustrated in South Africa, where the natives are taken from their villages to far-off cities to work in the mines. Later they return to scatter the venereal disease which has been acquired in the white man's "civilization." In the mines of Rhodesia the natives are put through a process of eugenic breeding not so far different from that used on the best cattle farms. Here the workers are permitted to have their wives with them, to be sure, but the problem of what to do with the children has not been solved. Native children born in the industrial civilization of the white man are soon unfitted for village life, but the white man does not guarantee them work. Unemployed natives may easily become violent natives. The Commission of the International Missionary Council, in its volume on "Modern Industry and the African," recognizes the dangers in the situation.<sup>56</sup>

Thus do the inherent contradictions of capitalistic imperialism constantly threaten to break out in violence. In a world which is as interdependent and interrelated as ours has now become, it is inevitable that violence used anywhere may bring on world conflict.

#### BLOODSHED AND BUSINESS

There seems to be no indication that capitalism will abandon imperialism. It does tend in the direction of restricting it to business aims, but business aims and the making of profits are the very policies which cause friction and exploitation. It is just because of this that there seems little likelihood of capitalism being able to prevent another major conflict within the next decade or two. In Europe today the statesmen of the world are secretly or openly admitting that another world war is inevitable.<sup>56a</sup> If the analysis we have made is at all valid the conclusion is unavoidable that imperialistic capitalism is a disastrous policy which defeats itself in the long run by causing war. Every international conference for "peace" has failed. Imperialism provides a ready excuse for the thwarting of peace efforts and the maintenance of armaments. In contrast to capitalistic

nations it is interesting to note that the Soviet Union has continually pleaded for complete disarmament.

Recently, abundant evidence has come to light regarding the efforts of capitalistic concerns throughout the world to make profits out of the traffic in arms. The Union of Democratic Control in London has published important evidence, as have *Living Age* and *Fortune*. There are in addition a large number of books, among them "Merchants of Death" and "Iron, Blood and Profits." These and other sources<sup>57</sup> cited in the references make abundantly clear the following facts.

The implements of war cost money and they are manufactured for profit. An aircraft carrier costs \$19,000,000, one bombing plane \$100,000, a cruiser \$11,000,000, each machine gun \$640, a modern battleship about \$30,000,000. In fact, it has been estimated that it cost some \$25,000 to kill each soldier during the World War.<sup>58</sup> Since that war the annual budgets for armament have been rising at a far faster rate than ever before. In 1933 the League of Nations declared that the world spent \$4,276,800,000 for armaments. The United States is still spending about \$7 out of every \$10 for war—past, present and future. In 1933 the *New York Times* spoke of the expenditures for thirty-seven vessels as "the greatest naval building program ever undertaken as a unit in the history of the country."<sup>59</sup> But by 1934 this seemed small; the administration had decided on a 102-ship, \$516,000,000 program.

It is estimated in a normal year some \$300,000,000 is spent in the purchase of military supplies by some nations from others.<sup>60</sup> In a capitalistic economy all these expenditures also mean profits. The larger the military expenditure the larger the profit. Great Britain exported 38.2 per cent of the total of such supplies in 1931.<sup>61</sup> The United States and Czechoslovakia came next with 11.2 per cent each.

The greatest war firms in the world are Skoda in Czechoslovakia, Vickers-Armstrong in England, Schneider-Creusot in France, Mitsui in Japan, Bethlehem Steel and Du Pont in the United States. Skoda is a French subsidiary and in 1929 and 1930 paid dividends of 28.5 per cent. Vickers has made tre-

mendous profits and had an arrangement with the Sun Insurance Office, Ltd., whereby if in any year from 1928 to 1932 inclusive it did not make a profit of £900,000, the Sun Insurance was to pay the firm £200,000 in that year. The profits of the French firm, Schneider-Creusot, were 26,000,000 francs in 1930. In 1933 Du Pont made \$39,000,000.

It is estimated that during war time the munition makers make between 200 and 300 per cent profit.<sup>62</sup> A military mission in Germany uncovered the fact that private companies were charging \$1,000 for machine guns that could be produced for \$250. Lloyd George during the war reduced the price of shells almost one-half and cut down the price of Lewis guns five times over, and yet no doubt the munition manufacturers still profited.<sup>63</sup>

Even the scare of a war will promote profits for the munition makers. When Hitler took power in Germany the stock of Schneider-Creusot and Skoda advanced by leaps and bounds on the Paris bourse.

Senator Borah declares that the first disagreement he ever had with President Theodore Roosevelt was when the latter was urging a naval building program in the Senate. He says, "When I expressed my disapproval of it, I was informed that we were upon the verge of a war with Japan."<sup>64</sup>

In their quest for profits the munition makers naturally are not particularly observant of the law if that stands in their way. It has been proved that at times American firms have supplied defective equipment to the federal government. In 1893 Charles M. Schwab, superintendent of the Carnegie Steel Company, was accused of defrauding the United States government by having permitted the plugging of holes in armor plate, of having specially treated the steel selected for the government tests, and of falsifying statements submitted to the government inspectors. The report of the chief of the ordnance bureau sustained many of the charges and the president of the United States assessed damages against the steel company.<sup>65</sup>

In Rumania, in March, 1933, the government found that the Skoda firm had evaded taxes to the extent of some \$600,000

and had spent some \$10,000,000 in gifts to the right officials and army officers. General Popescu committed suicide as a result of the disclosures. It has been shown that French interests sold arms to Hungary in flat defiance of the treaty of Trianon. Hungary defaulted, but this did not disturb the powerful armament firms. They persuaded the French government to make a loan to Hungary and were paid from the proceeds.<sup>66</sup>

#### TREASON FOR PROFIT

The munition manufacturers often sell their supplies to an enemy country. In the World War the Turks used British cannon to defeat the British at the Dardanelles, and it has been definitely established that British boats were sunk with British mines. In the Boer War Englishmen were mowed down with British guns and ammunition. In spite of the traditional loyalty of the Japanese spirit, Japanese business interests shipped war supplies to China which were, of course, used against Japan. In 1930 China bought 25.7 per cent of her arms from Germany, 14 per cent from Belgium, 3.7 per cent from Great Britain, 7.1 per cent from the United States, and 37 per cent from Japan. In fact, 89.2 per cent of all the arms which Japan exported in 1930 went to China.<sup>67</sup>

As with the British Empire, the sun never sets on the great English firm of Vickers-Armstrong. It has factories in Rumania and Italy; in Japan it has as a subsidiary the Japan Steel Works. It also has factories or subsidiaries in Canada, Ireland, Holland, New Zealand, and Spain. Its stockholders include many of the most prominent leaders of Great Britain. Among these are, the winner of the Nobel peace prize in 1925, Sir Austen Chamberlain; the chancellor of the exchequer, Neville Chamberlain; the president of the Y.M.C.A., Lord Kinnaid; and Dean Inge of St. Paul's Cathedral.

It was Sir Basil Zaharoff of this firm who sold the first practical submarine to his native land, Greece, and then proceeded to use this very sale to frighten Turkey into purchasing two others. Late in 1934 the Senate Munitions Investigating Committee discovered that the Electric Boat Company in the United

States was linked with Vickers of England and had paid Zaharoff \$2,000,000 as their salesman to supply submarines to the world regardless of the interests of their own governments.

Even during the World War, profits and private enterprise frequently came ahead of winning the war. Germany early captured the mammoth iron mines and smelters in the Briey basin from the French. But in 1916 the French were so close they could have shelled these smelters and so hastened the end of the war. They did not do so. Why? Pierre Etienne Flandin, later prime minister, declared that "the artillery of the French Second Army had been expressly forbidden to bombard Briey when the chance existed, and when a ten-mile penetration of the sector would have come close to spelling German ruin."<sup>68</sup>

Deputy Barthe, on January 24, 1919, said:

I affirm that either by the fact of the international solidarity of the great metallurgy companies, or in order to safeguard private business interests, our military chiefs were ordered not to bombard the establishments of the Briey basin, which were being exploited by the enemy during the war. I affirm that our aviation service received instructions to respect the blast furnaces in which the enemy steel was being made, and that a general who wished to bombard them was reprimanded.

All through the World War English and French firms sent glycerin to Germany for explosives, besides nickel, copper, oil, and rubber, while Germany sent France iron, steel and magnetos. It was all done through neutrals, of course. Rear Admiral Consett, who was British naval attaché in Denmark, Norway, or Sweden from 1912 to 1919, says:

In 1915 England exported twice as much nickel to Sweden as in the two previous years put together. Of the total imports of 504 tons, seventy were reshipped to Germany. But it can be said that the total importation served the needs of Germany, for the remaining 434 tons were used in Sweden for the manufacture of munitions.<sup>69</sup>

#### PROFIT VS. PEACE

Since the World War the various peace conferences have been largely a joke. What else could anyone expect with the nations

so heavily ensnared in the profits of the munition makers? At the 1932 conference M. Charles Dumont of Schneider-Creusot was one of the delegates from France. Colonel A. G. C. Dawnay, a brother of the director of Vickers-Armstrong, was a delegate from England. No less an authority than Lord Robert Cecil has declared, "There is a very sinister feature to all the disarmament discussions. I refer to the tremendous power wielded against all the proposals by armament firms. . . . We must aim at getting rid of this immense interest in the maintenance of suspicion."

Usually the armament makers say one thing for public consumption and do another. For instance, Charles M. Schwab said in 1927, "Today the Bethlehem Steel Company has definitely abandoned any thought of ever again engaging in the manufacture of ordnance except in times of great national emergency." The world has experienced a depression and perhaps this is the "emergency" which Mr. Schwab had in mind. At any rate, his factories are busily engaged in such manufacture.

Perhaps no capitalistic country created a greater sensation than did the United States when it was revealed that in 1929 William B. Shearer had received \$51,230 from three of the largest American naval construction companies for his services in blocking any effective results from the naval disarmament conference at Geneva in 1927. The facts would not have been revealed at all except for the fact that Mr. Shearer claimed his services had been so effective that he had not been paid enough. He consequently sued the Bethlehem Shipbuilding Corporation, the Newport News Shipbuilding and Drydock Company, and the American Brown-Boveri Corporation for \$255,655 as the balance due him. In the Senate hearing which followed, officials of the three companies were forced to admit that they had spent money trying to block effective international disarmament. In spite of the disclosures Shearer was still broadcasting over the radio in America in 1934 in favor of a large navy. It is probable that there may be scores of such paid propagandists throughout the world, for few companies of hired agents would willingly submit to publicity on the matter. In commenting on

this the Swedish representative at the League of Nations said, "the most dangerous facts can never be found in any official report."<sup>70</sup>

The United States Senate arms inquiry of 1934 and 1935 shocked a world long grown callous to the terrific evils of the profit system. Specimen revelations included the following: That a revolution in Cuba resulted successfully partly because a munitions firm supported one Cuban group as against another; that the American agent of one of the firms said that bribery was almost universal in the South American trade; that the French government was described as a broker for the sale of arms in South Africa; that the English ambassador had assisted in sales to the Montevideo police officials. An American missionary in Ecuador, Paul Young, had written a letter to his brother, the president of Federal Laboratories, Inc. (makers of gas bombs and machine guns), as follows:

Yesterday I saw the Minister of War again and demonstrated the hand grenade and the billy. . . . The demonstration of the hand grenade was . . . entirely successful. The Minister of War asked your best price on 100 billies and 200 hand grenades. . . .

We have just spent a week of joyful life at this Indian station. . . . Six or eight Indians expressed a desire to follow the Lord. They have had the desire before but have been pulled down by sin. Indian work needs a great deal of prayer.<sup>71</sup>

In spite of such startling facts the munitions firms were only acting as most firms in a capitalist economy do. *They were seeking profits first.* Munitions touch off the emotions more quickly than other industrial products because they traffic in war and death, but somewhat similar revelations could be made in almost any other branch of the existing economic order.

#### INEVITABLE WAR

War and capitalism are closely allied. Imperialism protects itself by armaments. We have seen how true this is in the territorial and economic expansion of the United States. Trace the course of the imperialistic development from Hawaii through



Samoa, Cuba, Puerto Rico, the Philippines, Guam, the Panama Canal, Mexico, Haiti, Santo Domingo, Nicaragua, Honduras, and other Latin American countries, and always the threat of war or military intervention has lurked in the background.

To Nicaragua, for instance, American bankers advanced some \$2,153,000 prior to 1912. They received as security 51 per cent of the national bank stock and 51 per cent of the national railway stock, and the interest was guaranteed by the customs revenues.<sup>72</sup> The republic was prohibited from reducing its tariffs. In 1912 the Conservative government maintained itself in power because American marines were landed. At that time seven American marines were killed. Says Professor Munro of Harvard, "Since 1912 the Government of Nicaragua has practically been maintained in office by the support of the United States."<sup>73</sup>

Scientific studies have shown that with the growth of capitalism war has been increasing both in intensity and frequency.<sup>74</sup> It is also apparently true that civilized man has spent more of his time, energy and capital for war than in any other single line of activity.<sup>75</sup>

In every single one of the great capitalistic nations more than half of the national expenditures go for wars, past, present, or future. Modern war is usually conducted with the idea of enlarging territory or securing commercial advantage. The World War was for a time supposed to be an exception, but latterly competent historians are agreed as to its commercial origins. Even President Wilson, speaking at St. Louis after he had had first-hand contact with European rulers, declared, "Of course, it was a commercial war!"

Professor Seeley of Cambridge, in "The Expansion of England," shows that the army and navy have been used to secure the vast expanse making up the modern British Empire. Another champion of Great Britain, Cramb, maintains, "All England's wars for the past five hundred years have been fought for empire."<sup>76</sup>

Capitalism exploits natural resources for profit. It also ex-

exploits human labor for profit. Neither form of exploitation would be secure without military power, hence armies, navies, and airplane fleets are an essential part of modern capitalism. Since profits are the goal of the capitalistic machine, and since the getting of profits frequently conflicts with the desires of some other group, it follows that conflict is unavoidable unless the profit urge is subordinated to some other motive. In fact, we must conclude that the capitalistic state is a war-making state.

It is extremely doubtful whether American imperialism has been financially profitable to the capitalists as a whole, much less to the American people or the natives who have been exploited; but it has paid heavily to the few.

Julius W. Pratt, head of the department of history and government at the University of Buffalo, after surveying American imperialism in action, concludes:

When we take into account the cost of winning and holding them, which has been considerable, and the serious loss of goodwill in Latin America occasioned by our "imperialism," it can be said without much fear of contradiction that most of our possessions and protectorates have become today liabilities, economic or military or both.

He adds, "The social and economic health in the tropical islands under our rule varies inversely as the amount of American capital there invested." If his judgment is true, American capitalism has a deleterious effect on the native population. He ends his study by saying American imperialism has not been good business nor valid military strategy and has been bad as a humanitarian enterprise." He might have added that to the extent that imperialism is financially profitable to a dominant group it becomes ethically questionable. It tends to foster parasitism. The dominant nation tends to profit unjustifiably off the native population. Even the foreign bond holder, if he gets interest regularly, may become a parasite living from income instead of from constructive work. If to all its other costs is added that of world war, imperialism becomes the most expensive and ruinous policy of capitalism.

## SUMMARY

In this and previous chapters we have attempted to show, although of necessity in the briefest terms, that:

1. Production has become more and more concentrated, finally evolving into monopoly. Partnerships have given place to corporations, corporations have evolved into trusts, trusts into monopolies, and monopolies into finance capitalism.

2. Monopoly and finance capital have ensured the concentration of the ownership of raw materials.

3. The banks have evolved into complex instruments of finance, the monopolists of finance capital. A handful of the largest banks in each of the leading countries have concentrated the larger part of the capital and the production facilities of their respective countries, thus effecting what has been called by Louis Brandeis, now of the United States Supreme Court, a financial oligarchy.

4. Colonial policy and modern imperialism have been a struggle for raw materials, for exploitation of capital, for spheres of influence, and for dollar diplomacy.

5. The world has in effect been divided among the capitalistic nations until there is no longer any territory to be divided except as some is wrested from a rival.

6. Capitalism has become parasitic in that it feeds on backward races and weaker peoples.

7. Imperialism inevitably leads to war and provides an opportunity for the armament makers to block all disarmament efforts and to profiteer by rationalizing "patriotism."

Under modern conditions the entire economic fabric of society has changed. We are in an era of corporocracy; gigantic combinations are the rule. Some 200 corporations control 50 per cent of all the nonbanking wealth in the United States. Huge vertical trusts own the raw supplies, the transportation system, the production process, the distribution process, and through interlocking directorates are often controlled by the bankers. Under such conditions we have evolved into an economic order in which individual private property in the old sense is no longer

here. Individual private-property control of these vast financial empires is an anachronism. The entire production and distribution process is really carried on today by the whole of society, yet a small number of capitalists drain off the profits and struggle desperately to maintain the old legal traditions of private property and *laissez faire*. Imperialism is the final stage of this process, a flowering of the profit economy which precedes its decay. It rests back on inequality of income and the entire economic system of profits for the few at the expense of the many. The privileged classes have income which they must invest. Production has long since reached the saturation point at home and foreign investments and foreign markets provide the only hope of preventing a collapse of the entire credit structure and of capitalism itself. Imperialism cannot permanently endure because it is based on the exploitation of backward peoples and all these have now been divided among the great powers. Rivalries between the great capitalistic nations for markets and spheres of influence are the inevitable result; rivalries which are so deep and irreconcilable that they will likely eventuate in war.

## CHAPTER XII

### THE PROFIT MOTIVE

CAPITALISM is not a static fixed system; it is changing from moment to moment, but the analyses of its various processes recorded in the previous chapters have told their own tale. Underlying almost every change and process is the fundamental motivation of the capitalistic system, acquisition of profits.

One employer in Connecticut revealed this basic weakness when he attempted to tell a group of Yale University students about the "evils and corruption" inherent in the trade-union movement. He illustrated his point by describing a severe strike in one of his New York factories. "We broke the strike by buying off the union leader. All we had to do was offer him twice the salary which he had been getting from the union." The writer then asked the employer whether he did not feel that ethically it was just as wrong for the employer to bribe the labor leader as it was for the latter to accept. "Of course not," replied the employer. "The trade-union leader pretends to be working in the public interest and for the welfare of the workers, but everyone knows that we are working for ourselves and for money."

This employer had unwittingly expressed a great truth. In general the employers and executives who take part in production, distribution, and marketing do so with the hope of profit—dollar profit. It is not denied that other motives are present, the thirst for power and the love of adventure; but fused with these is usually the love of profits, and the latter is thought to be the *sine qua non* of the system. Professor Logan McPherson, for instance, says that the profit motive has evolved into the means by which material welfare has been advanced. It has

aided the intellectual, the emotional, and the spiritual life of the nation. Jules Bache, banker and a financial power in Wall Street, says, "Abolish the profit motive and you abolish all progress." Foster and Catchings, in their book on "Profits," declare, "The expenditure of profits is the pulsating force that drives the life-sustaining blood to every part of the economic body. The blood is money. . . . In short, the chief urge to public activity is the profit motive." Professor Karl Scholz of the Wharton School of Finance and Commerce of the University of Pennsylvania says, "To question the soundness of the idea of business for profit is to challenge the very foundation of the economic order. The capitalistic system is founded upon the idea of profit making." For the most part the business world unquestionably accepts profit as the *summum bonum*.

#### MONEY AND MORALS

Indeed, so deeply rooted has the theory of profit become imbedded in our legal tradition that it is often impossible to secure a remedy at law in a civil action unless it can be proved that there has been a money damage. In Chapter III we have already cited the Dodge case, where the Ford Motor Company was restrained from acting for the public interest if it interfered with the profits of a minority stockholder. A more recent example is that of a case involving the former prime minister of the Canadian province of Alberta. Vivian MacMillan, a country girl, charged that the premier had seduced her. A jury awarded her \$10,000 and her father \$5,000 for the loss of her services and the premier resigned his office. Acting Chief Justice Ives then set aside the damages on the ground that it was not shown that either father or daughter had suffered a *money* injury by her betrayal. Testimony showed that a young medical student withdrew his proposal of marriage after she confessed to her experience with the premier, but this is not "money damage."<sup>1</sup>

In another case a publisher altered the manuscript of a writer without permission by leaving out material, which actually increased the profits of the book. When the author protested he was informed that he had no recourse at law because injury had

been done to his ideas, not to his pocketbook. So fixed is this idea of profit in the whole social fabric that elections are sometimes won or lost on the condition of Wall Street with its concomitant effect on the people at large.

Perhaps government has recently been tending in the direction of giving more consideration to the public weal, but in the end even its program and results may be judged by the extent to which there is an upward swing of profits.

In spite of the fact that profit getting is one of the fundamental mores of our time, it is conceivable that the entire economic theory based on its necessity may be wrong. Because a theory is widely accepted is no proof that it is valid. At one time the greatest scientists were certain that the earth was flat, yet the theory was fallacious. Similarly, it is quite possible that the world may eventually recognize that the profit motive is now doing more harm than good. Before we discuss further the pros and cons of the profit motive, let us examine the nature of profit itself.

#### THE CRUX OF PROFIT

Profit is not reward for service. It is not wages, salaries, or fees; almost everyone wants return for service rendered and must secure enough for subsistence. Profit is not interest on investment. It is not rent. Profit is a net surplus of a joint enterprise carried on by capital and labor which is appropriated by one party to it. Profit is whatever remains after all expenses have been paid, including insurance, salary to management, and interest on investment. In other words profit is the variable surplus of what the consumer pays over the producer's cost after the fixed charges have been met. According to Sidney A. Reeve, "Profit is a tribute. . . . The manufacturer says, 'Not a wheel in the factory may turn unless I get tribute from all.'" It is not a question of a reward for legitimate service, but whether men need to have always held up before their eyes a dazzling material prize, a reward beyond what is truly earned. In the sense in which we shall here use profit we mean getting something for nothing, or a return which does not come from real

service. Pure profit is therefore something which remains after all expenses have been paid, including rent and interest.

## THEORY AND PRACTICE

It is argued that the profit motivation is fair and equitable because the American economic order provides equality of opportunity; those who win the rewards are therefore entitled to them. President Hoover once said, "In the American system through free and universal education we train the runners, we strive to give them an equal start, our government is the umpire of its fairness. The winner is he who shows the most conscientious training, the greatest ability, the strongest character."<sup>2</sup> Of course a moment's reflection brings the realization that we do not give the runners an equal start. It is absurd to say that a boy who graduates from a high school only to find out that he can secure no employment is on a par with a boy from a wealthy home who has been through one of the best colleges in the United States and whose father places him, as in the case of Ivy Lee's son,\* in a lucrative position paying thousands of dollars annually. In 1930 over 4,000,000 families, including some 20,000,000 individuals, lived in such poor quarters that they paid less than \$20 a month rent.<sup>3</sup> How can children in these homes be said to have an equal opportunity?

It is also exceedingly questionable whether the winner is the one who shows the strongest character, unless character be defined as the will to exploit. No doubt in the business world many men achieve because of character. Others win wealth because of the absence of character, and still others because of luck. Recently, in the senatorial hearings, we learned of a man who invested \$40 in an airplane stock and drew out several millions. It can hardly be said that this was largely the result of character. The wealth piled up by the president of a public utility or by a bootlegger or by a gangster might each have resulted because of antisocial acts. The investigations by the Senate Committee on Banking have completely exploded the character-wealth theory. Whether we analyze the actions of the presidents

\* See page 312.



of the two largest banks in New York City or whether we turn to what happened in Cleveland or Detroit, the results are the same—the accumulation of the highest profits does not coincide with the highest character. The codes established under the N.R.A. are replete with provisions against bribery and other forms of corruption; they stand as mute testimonials to the nefarious business practices of the past and present. The fact is that the profit motivation has actually been destroying higher values rather than creating them.

### BUILDING

But it is said that without profits successful corporations could not enlarge their plants. This of course is ridiculous. There could still be accumulation for business expansion under a planned economy, but if funds were used for this purpose a corporation would not be permitted to continue to charge its customers so as to make profits on additions which had already been paid for by the public. In the case of the Illinois Bell Telephone Company, for instance, \$1,069 a year was set aside to meet building additions costing \$51,303 in 1974. Yet if interest is added, at the 8 per cent return demanded by the company, the total in 1974 would amount to \$524,270. No wonder the United States Supreme Court decided that the Bell Telephone Company had set aside unnecessarily large depreciation reserves. The chief justice agreed "that the depreciation expense and reserve practice of the Bell Companies resulted in public ownership but without public participation in the profits."<sup>4</sup> While this policy may be corrected in the case of certain telephone companies which are public utilities—*after eleven years in court*, as in this case—the ordinary corporation cannot be thus controlled under a profit economy. The fallacy of the theory that expansion cannot occur without private profit is shown by the growth of the coöperative movement in Europe, where factory after factory has been taken over and the entire system is run on a nonprofit basis for the good of the consumer. In Great Britain alone the coöperatives now have scores of factories, besides mines, banks, printing establishments, etc.

INVENTION *vs.* SPECULATION

It is claimed that the profit motive rewards the pioneer and the inventor. Scientific studies have shown that the inventors today rarely reap large rewards. They are hired by the great corporations and the greatest inventions result from group effort. As we have shown, it is no longer individual invention and pioneering but finance and speculation that bring the greatest profits. For instance, one wealthy man with two friends borrowed \$10,000 and in a few years, by certain manipulations, accumulated \$80,000,000.<sup>5</sup>

## LARGESS

It is also claimed that the profit motive creates a surplus which, although accumulated in devious and perhaps unscrupulous ways, nevertheless redounds to the good of society. Wealthy men must eventually hand on their fortunes, and a good share goes into public libraries, colleges, and other socially desirable institutions. This is partially true, but we have shown that since the main drive is profits the wealthy continually try to reinvest their capital; this makes for overproduction, and since the capitalists refuse to produce except for profit, recurring periods of widespread unemployment and starvation are inescapable. Money given by wealth is inevitably directed into channels which are "safe" and "sane" from the standpoint of wealth. We shall in a later chapter point out what this means in the case of education.

## INCENTIVE

Other advocates of the profit motive insist that we need it as a spur to achievement. The question arises as to whether it is not a spur to the wrong kinds of achievement. For instance, does it not lead to monopoly? We have already noted the practices of the Standard Oil Company in America in its early days and those of the public utilities. Recently the Baush Machine Tool Company sued the Aluminum Company of America, claiming that it had become a monopoly. In the case of the United States Steel Corporation the monopoly persisted in the face of

unfavorable judicial decisions until the United States Supreme Court made a distinction between reasonable and unreasonable consolidation. In the recent depression we have seen the tendency of the Steel Corporation to maintain the price of steel so as to keep up the value of what was originally watered stock. While monopolies may be a natural trend there is no question that in many cases they have actually succeeded in forcing the public to pay higher prices and thus pay tribute to the few.

That monopoly is not successful because of efficiency but because it is useful to profiteer was argued in 1912 by Louis D. Brandeis, now a justice of the Supreme Court. Later he stated, as we have noted, that "banker-management contravenes the fundamental laws of human limitations." Yet it is precisely this kind of control which we are securing in much of our large-scale business enterprise today. Profits also stimulate questionable business deals as we have seen. William Z. Ripley presents the example of Dodge Brothers, Inc., which is typical of many.

A banking house buys up a private business for, it has been said, \$146,000,000 or thereabouts. This sum, and more too, they recover—if the plan works out—by the sale to the public for \$160,000,000 of bonds and preferred stock at par and 1,500,000 non-voting shares of Class A common stock. But not a single one of the 500,000 Class B voting (no par) common shares are thus sold. The promoters have virtually paid themselves a handsome profit for the assumption of the entire directorial power, having mortgaged the property to the full amount of its original cost through outstanding bonds and preferred stock, including both assets and capitalized earning power. And the amazing thing is that this final death blow to the exercise of voting rights by the general public has brought no voice of protest. Yet the plan bears every appearance of a bald and outrageous theft of the last title of responsibility for management of the actual owners by those who are setting up these latest financial erections. Isn't it the prettiest case ever known of having a cake and eating it too! <sup>6</sup>

Aside from the question of monopoly, does the profit urge stimulate the production of needed goods, or of questionable and extravagant substitutes? Since manufacture is primarily for profits there is no guarantee that the product will be either

socially useful or beneficial. It may be socially undesirable or positively harmful.

The competition of profit makers for the most profitable markets usually turns the trend of production either in the direction of cheap or shoddy goods for the masses, or of profitable goods destined for those of abundant means who can pay the larger margin of profit. We have already cited sufficient examples in previous chapters. Clay, in a standard work on "Economics," points out the inevitable result.

If a rich man offers five hundred dollars for a Pekingese puppy while a poor man offers four hundred and ninety-five for the education of his children, the productive resources of society under competitive conditions will be devoted to getting the rich man his Pekingese puppy before the education of the poor man's children will be thought of. If Coca Cola brings high profits, the demand for it will be stimulated all over the United States through clever advertising appeals. A Massachusetts man made a fortune out of what he says contains "nothing but sugar, water, coloring matter, and advertising."

Davenport, in his "Economics of Enterprise," says:

Peruna, hop bitters, obscene literature, indecent paintings, picture hats, and corsets are wealth, being marketable. Sweat-shop exploitations by the contractor, white-slave exploitations by the procurer, adulteration by the manufacturing druggists, poison canning by the packers, shell gaming by the gamblers, privilege manipulation by the monopolies, all are productive occupations.

The point is that the profit motive acts as a spur for the production of the wrong kind of things. In the case of moving pictures the profit motive operates to increase the number of bad pictures and to increase the opposition to any form of social control. Not long ago the United States Senate made an inquiry into the moving-picture industry, stating as one of the reasons for the investigation that the president of the national association of the motion-picture industry, in a speech to a committee of the state senators of New Jersey, was reported to have said, "You can't control this business, but I can; I am President of the Producers' Association and with two or three other men

I control every foot of film shown in the United States. What we say goes." 7

#### DRUMMING UP DEMAND

Some would have us believe that we cannot improve conditions since we must produce what the people demand. But, as we have reiterated, the profit motive often "whips up" demand. For this reason Europeans introduced opium into China against the desire of her people, and England forced her to accept the drug by an opium war. The result was that at one time millions of pounds of this narcotic were annually being sent to China from English territory. This would never have occurred had profit not blinded the sense of justice. Today it is Japan which is forcing opium on China. Foster and Catchings say, in their book on "Profits," "It is certainly underestimating the case to say that profits to the value of a billion dollars a year are used in creating capital facilities which are never justified by demand."

Even President Herbert Hoover has declared, "All slumps are the inexorable consequences of the destructive forces of booms. . . . The effect of them is to divert capital and energy from healthy enterprise to stimulate waste, extravagance, and unsound enterprise, with the inevitable collapse and panic." 8

#### THE HUMAN COST

Profit has also stimulated inhuman and materialistic industrial practices and exploitation. Vast numbers of workers even today are not properly safeguarded against disease and accident. The United States department of labor maintains that thousands are injured unnecessarily in the industrial mechanism. In spite of the fact that the United States Congress enacted a law to compel employers to permit their workers to organize, effective unionization has been blocked in such basic industries as automobiles and steel, as well as in thousands and thousands of factories throughout the length and breadth of the United States. It seems clear that this opposition is due to the desire for profits. Even safety appliances have been opposed for this reason. For instance, the Manly Report of the United States Commission on Industrial Relations states:

The persistent and bitter manner in which the railroads fought the laws providing for safety appliances, although the measures were moderate and necessary not only for the safety of the traveling public but for the efficient operation of the roads, is well known to Congress.

So powerful is the profit motive that it overrides considerations of life itself. For example, cases of dysentery broke out in the Congress and Auditorium Hotels in Chicago while the world's fair was in progress. The facts were suppressed for about three months. By this time, it is claimed, nearly a score had died and the disease had struck 700 people in 206 centers. Several lawsuits have been filed against the hotels.<sup>8a</sup>

No one knows how much of the labor unrest and the strikes which have threatened our national life result from the profit motive. On the other hand the worker himself becomes so imbued with the desire to make something for nothing that he may soldier on the job or strike for an unreasonable wage. It is certain that the average laborer does not have any great incentive to do good work where he feels that the chief aim of the employer is to secure profits. Not long ago, in Providence, Rhode Island, at the conclusion of an address on economic justice, one of the employers arose and said:

I want to publicly testify that all my life I have been stealing from my workers. When one of my men would come to me and say that his wife was going to have a baby and he needed more money, my heart would tell me that I ought to give him an increase but then I would remember that I wanted to show so much profit for the year and I would reply, "I wish we could give you the increase but the condition of the business will not justify it." Yes, all the time I have been stealing from my workers and I can never pay it back, for when the depression came I laid off nearly all the men and they are scattered and the profits have been distributed.

The profit motivation is also responsible for commercial warfare. In the past thirty years there has been a drift of workers from the truly productive occupations into the more lucrative fields of commercial competition. Professor Sidney A. Reeve calls this a cancerous growth within the body economic. He claims that in fifty years the number of persons engaged in

supplying food and clothing increased 35 per cent, while in commercial occupations it increased 240 per cent. In directly combative positions, such as salesmanship, it increased 426 per cent. He claims we have reached a point where of every dollar fifty cents goes for commercial war.

The profit motivation now makes for international competition between vast industrial consolidations and financial interests. Japan wishes to secure a dominant position in Manchuria and China; she takes it by military force. British, American, and Russian interests compete in the matter of oil. Within the United States labor and capital are fighting each other and themselves. Codes have now been set up in an attempt to mitigate this commercial warfare. To the extent that this results in consolidation, organization, and domination by large industry it threatens the rights of the consumer. In fact, Professor Ogburn of the President's Research Committee on Social Trends resigned from the Consumers' Board because he felt that the consumer was not being properly protected under the codes.

#### EFFICIENCY

Many who will admit that this indictment is partially true claim that at least the profit motive creates economic efficiency. The question might be raised as to whether it is desirable to have economic efficiency at such a great cost. Which is more important, economic efficiency or coöperative goodwill? Shall economic efficiency be secured at the price of justice, truth, beauty, fellowship, or equality? But, in a larger sense, is the American economic machine efficient? We have shown that it is not, whether considered from the standpoint of production or distribution. In Ontario, where there is a system of public power, the consumer pays on the average 2.7 cents per kilowatt hour for electricity. No matter how efficient privately owned utility systems are in extracting profits from the consumer and running their enterprises economically, can they be said to be genuinely efficient if they are charging two or three times as much as is necessary for electricity?

The profit motive does not feed, clothe, or house the people

adequately. Profits may have encouraged hard work and efficiency as long as men worked their own property, got the profits when there were profits, and actually bore the loss if there were losses. But now we are in an age of corpocracy where the managers of property own an insignificant part of the corporations they control or manage. If by high salaries or bonuses the efficiency and earnings are increased, they go, unless they are stolen by insiders, not to managers but to stockholders. Hence the basis for profits in orthodox economics has disappeared. Furthermore, the managers do not bear the risk. In modern industry the unorganized bear the loss, whether they be farmers or laborers, rather than the managers.

#### THRIFT

Today even the justification for saving has disappeared, for it is no longer safe. It is futile to try to teach the young thrift and saving when they see men making millions in a day or a week by speculation without any service. Even if saving could be taught it would be unwise, for under present conditions the individual may work hard and save for a lifetime and then see everything wiped out in a day by forces over which he had no control and of which he had no knowledge. Individualism has disappeared. The labor unions get their advantages through group action and the big industrialists likewise.

#### NEW INCENTIVES

It is claimed that, at least, the system produces goods, and in America more goods than in any other country in the world. The orthodox economic position has been that a sort of invisible hand transmutes the selfishness of men into a process which makes for a more perfect distribution to all. The fallacy in this position has been abundantly pointed out in the preceding chapters. Some argue that the profit motive is the only one which is powerful enough to make the economic machine function. This theory is fallacious, as the United States Army and the Soviet Union have both demonstrated. Profit is not the only motivation which produces goods. Kropotkin, in his notable



study on mutual aid, has shown that the coöperative sharing spirit has been one of the most powerful in human history. Various sociologists have emphasized the role of sympathy, sociability, the desire for power, the quest for adventure, the desire for social recognition, and many other motives. Whiting Williams, after considerable inductive study of the motivations of business leaders, has decided that the overpowering urge is the wish for social worth. We might list the following incentives among others, some of which might be used in a new social order:

1. The wish to serve humanity.
2. The joy of work itself.
3. The satisfaction of creativity.
4. The desire for recognition by one's fellow workers.
5. The desire for recognition by the public.
6. The craving for notoriety.
7. The desire for power.
8. The spirit of adventure.

Even if the profit motive were done away with certain external pressures could operate, such as:

1. Governmental pressure.
2. Fear of the loss of position.
3. Medals, prizes, citations.
4. The pressure of fellow workers in detecting inefficiency.
5. The knowledge that others do not win speculative profit rewards.

*One reason why the profit motive is so powerful in a capitalistic society is that it is superimposed upon many of the other motives and reinforces them. One of the most potent means of adventure is the quest for money; and money means power as well as social prestige. Consequently there is a cumulative piling up of urges when the individual thinks of profits. The profit motive alone is by no means as powerful a mainspring of human action as it has been given credit for being. If the other motives were entirely divorced from it we should then see it in proper*

*perspective; it would be recognized as far less powerful than other motives. Therefore, it is not so necessary to change human nature to reconstruct the economic order as it is to change the economic order to discover that human nature is not what it seems.*

#### MODIFYING FACTORS

It is possible that one reason the American economic order continues to function at all is just because so many individuals are not completely motivated by the desire for profits. No one would for a moment claim that the ministers and social workers live and work solely for profits. No one who knows the meager returns which teachers have always received could justly charge that their primary aim is money. Physicians do not ordinarily refuse to treat the patient who cannot pay their highest charge. Farmers, small shopkeepers, and minor employers are often satisfied with a moderate return for service rendered. The great inventions of history were made by men who were urged on not so much by the lure of money as by the desire to create.

Vicomte d'Avenal, a French writer, has made a careful study of the lives of scholars, artists, authors and scientists for the last 700 years. He finds that most of them have received only miserly pittance. Their rewards were of an entirely different sort, not to be computed in terms of money. It is also true that a considerable part of modern society is carried on without the profit drive—the public highways, the schools, and the post office among others. In fact, capitalistic enterprises have profited handsomely because they could secure their trained help from the schools and could use the public roads without paying a profit toll.

A far more powerful reason why America has been able to function until recently without more difficulty has been that there were undeveloped peoples and resources that could be profitably exploited. Today, as we have seen, the profit motive often blocks production. This has been quite clearly shown in the hearings before the Committee on Banking and Currency of the United States Senate. The head of the Chase Bank was so

engrossed in getting profits for himself that he neglected the welfare of the stockholders and the public. As soon as the facts were brought to light the board of directors acted. In another case a concern manufacturing one of the best products in the United States was almost destroyed because the president of the corporation was so interested in manipulating the corporation's stock for his own private profit that he neglected its affairs.

On the other hand, the history of the coöperative movement proves that we do not need to give men huge differential salaries in order to make them productive. Germany and England, prior to the war, found that it was possible to command the highest talents in the civil service at wages which were insignificant in contrast to the prevailing business rewards.

#### THE LOGICAL EXTREME

If the profit motive actually ruled our national life it would mean that we should face a constant effort to repress buying power, raise selling prices, and lower wages, or at least a determined pressure to secure at any cost a greater and greater production per unit cost of labor. To some extent this is actually happening. In proportion as the profit motive dominates it deprives some people somewhere of the means to buy what they want or need. The world is actually widely underfed, underclothed, and underhoused; and we call it overproduction, forgetting that there never can be real overproduction while such large areas of dire human need remain. It is obvious, if the profit motive operated consciously and universally, that it would restrict production until everyone was desperate and would pay the highest price. Foster and Catchings have outlined this situation at some length and they maintain that in the last analysis it is the chief cause of war.

Professor Taussig of Harvard calls this process "the mathematical law of charging all that the traffic will bear." President Harding, some time before his death, said:

It is rather shocking to be told, and to have the statement strongly supported, that nine million bales of cotton raised on American plantations

in a given year will actually be worth more to the producers than thirteen million bales would have been, or seven hundred thousand bushels of wheat will bring more than a million bushels.

During the war the capitalists shouted, "Produce, produce!" In only a few months they were shutting down their factories and throwing men out of work. Where this was done unavoidably, it is still more proof of the demoralizing effect of the profit motive. The committee of engineers appointed by Herbert Hoover on industrial waste found that 50 per cent of waste was due to the employers and 24 per cent to the wage workers. We cannot be sure just how much of this is due to the profit motive, but the report points out that more time and money had to be spent in selling things than in making them. One of the engineers said, "I see no way out except in a complete change of motive." Another said:

That nation which first recognizes the fundamental fact that production, not money, must be the aim of our economic system will, other things being equal, exert the predominating influence on the civilization which is to be built up in the period of reconstruction upon which we are now entering. The curious fact is that the manufacturer who largely forgets profits and concentrates his attention on producing at the lowest possible price a useful article needed by millions of the people will in the long run be the most successful.

Not long ago the American government was endeavoring to create scarcity, to stop production, to burn up surplus supplies of wheat, and to throw hogs into the river; but this hardly demonstrates that the profit system is highly efficient in production. Where electricity is produced by public agencies at lower rates its consumption is largely increased. In Ontario, for instance, the domestic and agricultural workers use from five to ten times as much as in the United States, where the higher rates of private profit prevail."

#### NOTHING FOR MONEY

In spite of all that has been said defenders of the profit motivation may declare that it is necessary as a reward for

risks. But does not society lose more than she gains? The profit motive stimulates men to take gambling chances. The speculation in Florida land is a concrete illustration, although that in finance and in Wall Street already described is more important. It will be remembered that not long ago offices selling Florida real estate sprang up all over the United States—because, forsooth, it was to increase in value overnight. One two-page advertisement in the *New York Times*, for instance, said in great headlines:

READ EVERY STATEMENT CAREFULLY—DECIDE  
IT'S A ONCE-IN-A-LIFETIME INVESTMENT—  
THEN ACT AT ONCE  
I WANT 5,000 BUYERS TO SHARE PROFITS  
WITH ME IN FLORIDA  
WHERE HOUSES GO THE PROFITS FLOW  
AMAZING PROFITS ARE POSSIBLE  
IF YOU BUY RIGHT

Even after four years of the depression Neill-Tyson, Inc., was still using a full page in *News-Week* to advertise its stock advice service for \$150 a year. The headlines ran, "GET-RICH-QUICK-WALLINGFORDS STEP THIS WAY 100% Profit in 3 Weeks!" This was followed by a frank statement: "If you want to speculate, it's your money. I'll pass along the information that comes to me through years' association with Wall Street and Wall Street men but I'll always label the package: DANGER—HIGH EXPLOSIVES!"<sup>10</sup>

These are illustrative of the billions of dollars annually squandered in America on gambling chances which have been whipped up by clever advertising.

The result is that about 90 per cent of all men engaged in business fail at some period in their lives.<sup>11</sup> They may not go through bankruptcy, but they fail so completely that they give up whatever they had been attempting. The great percentage of these failures shows the enormous risks. Therefore the rewards must be made proportionately great. But it is not only the

business man who loses through commercial failure. There is a loss to the employees, to other business concerns, and to the public. Society pays dearly first of all for the failures, and then she has to pay unreasonably for the successes.

After the election of Coolidge was assured a period of wild speculation set in on the stock exchanges. On January 30, 1926, the New York Stock Exchange, at the request of the Federal Reserve Bank, first published the loans made to brokers and dealers in stocks and bonds by sixty-one banks. The loans totaled \$3,513,000,000, a sum which the average reader can scarcely comprehend.

What happened following the Wall Street crash of 1929 is now a matter of history. The number of suicides among formerly wealthy men increased so greatly that the actuarial calculations of the insurance companies had to be revised. Some professors in our higher institutions of learning lost their homes. Ministers were forced into debt. The banks, which had loaned on collateral which they thought sound, failed by the thousands.

#### THE SURE-THING PLAYERS

Major business enterprise today has a tendency to shift the risk and still take the profit. We have noted one example in the formation of the Alleghany Corporation, where J. P. Morgan and Company secured 1,250,000 shares of stock at \$20 a share. There was little or no risk in taking this stock because it could be passed on to insiders at a price far below the market or sold outright to the public. Mr. Whitney, one of the partners of the Morgan Company, sold 8,145 shares of this common stock at a profit of over \$229,000. Again he sold 5,000 shares of Johns-Manville Corporation common stock at a profit of over \$899,000.

It is clear that risk tends to decrease in proportion to the completeness of knowledge which the business man has regarding an investment. For a bank there is not much risk involved in selling foreign securities to the public to the tune of millions of dollars. The bank's profit is safe no matter how much risk may be involved for the average purchaser. Similarly, a syndicate which buys up an automobile plant can sell stock to the

public, thus avoiding any risk for themselves, while at the same time retaining entire control of the new corporation. The Federal Trade Commission investigated numerous inside deals where profits ran from 30 to over 100 per cent and not a single dollar had been put in or any risk taken. Inside promoters frequently get all their stock for nothing. Even if the corporation goes bankrupt they have usually profited to the extent of thousands and thousands of dollars. The largest corporations have little risk even in oil development. Their losses are averaged in with their gains and they use the most skilled experts.

### THE DEVIL A SAINT

So devastating has been the effect of profit motivation upon the ideals of the American people that it has reached into the institutions of learning themselves, corroding the rising generation with its injurious effect. For instance, a poster prominently displayed in the New Haven High School said among other things:

#### I LIKE BUSINESS

I like business because it is competitive. Business keeps books. The books are the score cards. Profit is the measure of accomplishment, not the ideal measure, but the most practical that can be devised. I like business because it is honestly selfish, thereby avoiding the hypocrisy and sentimentality of the unselfish attitude.

There is a sort of Gresham's law for motivation and for social standards. The worst competitor may drag down the good to his own level or force him into bankruptcy. For example, if southern mills use child labor northern mills claim they cannot do without it. The bad standards drive out the good as paper currency drives out gold. Why is it that fewer and fewer of the best men in our colleges are going into religious and educational work? A questionnaire circulated among Dartmouth and Oberlin students brought the reply that most students desire to secure money. The social set is all that way. Professor Gray, a former president of the American Economic Association, says, "The spirit of acquisition is in the air, in our homes, in our churches,

our schools, our colleges, our newspapers, and, most of all, in our educational effort as manifested in our textbooks and schools of business. The whole emphasis is acquisition." Professor Ellwood of Missouri tells of a fine college student who decided to go into teaching. The result was that his father stayed up all one night proving that this decision was foolish; the son finally ended by going into business. Two college men in another institution who had decided to enter the ministry finally became a banker and an undertaker respectively, following the professions of their fathers, although they admitted that were it not for social pressure they would have kept by their own resolves.

Governor William E. Sweet of Colorado stated in 1924:

The only investment that I know of, in which one can be absolutely sure that there is no question of morality involved, is municipal bonds, the interest and principal of which are payable by taxes. . . . My judgment is that business is honeycombed with wrong-doing; there is hardly any line which is free from it.<sup>12</sup>

At present we are apparently educating our boys and girls to regard profits as a highly commendable goal in life. Suppose, instead of educating against vice, that we lauded sensuality as the *summum bonum* of achievement! Suppose that we told all college men that vice was indispensable for everyone! What would be the result? Would it not be an orgy of vice? Yet this is exactly what we are doing now in the matter of profits. Should we not rather teach that anyone who spends his life and energy for profit—getting something for nothing—is little better than a thief and has disgraced his college?

The final end of man is not property and profit accumulation but spiritual values. The moral values of capitalism are supposed to be thrift, industry, and honesty. With the new era thrift has been discouraged. With from 12,000,000 to 15,000,000 unemployed it can hardly be said that the capitalistic profit-motivated system stimulates industriousness. And so far as honesty is concerned, the records of the Federal Trade Commission and the senatorial hearings speak for themselves. Property accumulation represents not only reward for service but too often luck and in



some instances graft. It is an intellectual rationalization which makes the man of property feel that there is a harmony between financial self-interest and the common good. Keynes of England sums up capitalistic morality in these words: "The new ethic being no more than a scientific study of the consequences of rational self-love." But what is self-love except a form of selfishness? Since the social surplus is chiefly in the hands of the profit seekers our entire economic and social order has been colored with a profit tinge. As we shall see, the result has been a capitalistic culture. Whether we consider recreation, the radio, the press, education, religion, or the political state, we have been incalculably affected, and it is impossible to gauge the full price the American people have paid and will yet pay.

#### THE DEVIL SICK

In conclusion, it should not be lost sight of that we are living in a dynamic, changing world. This is recognized when conditions today are compared with those of 150 years ago. It is not always realized that the transformation in the next century will be even more far-reaching and startling. The profit economy which could survive in a pioneer era while backward countries were being exploited is daily growing more unsuited to modern conditions. During the past 150 years the United States has evolved from a pioneer undeveloped frontier to an urban industrialized nation. During this *development era*, if profits were extracted, they were immediately put back into the production of factories, ships, railroads, and other facilities. This meant that the profits were used to employ more men and build up the country. During this period we were admitting immigrants by the millions; hence consumers' demand was constantly increasing, which justified the increase in production facilities. Today all is changed. Immigration is barred, the population increase is slight, and since capital facilities are adequate it is now merely a question of the replacement of capital goods and the production of consumption goods for those who have money to buy. We have entered an *era of maintenance*, not expansion.

Were it not for the processes of imperialism which we have

sketched in the last chapter the system might have collapsed before this. Imperialism itself is no longer as secure as it once was. Due to a complex variety of forces, including the development of constitutional government, the extension of the suffrage, the growth of education, and the insane growth of nationalism with its jealousies and hatreds, the undeveloped peoples are unwilling to be exploited longer.

As long as its exploitation went on while the concentrated capital could be immediately spent in developing production facilities and in building and running ships to carry raw materials and finished goods, capitalism could continue. Today the foreign markets are gone and it is unsafe to loan or invest in foreign countries. All the few rich can do now is to build more factories and equipment at home. They cannot consume their incomes. They can compete among themselves, break the commodity market, and then take over the bankrupt factories, but this does not help the total situation.

Probably nowhere else in the world have the capitalists had a free hand for so long a period as in the United States and nowhere has the depression been more pronounced. The capitalists deluded themselves into thinking they were great because the country was great. In essence those at the top in the United States and England became wealthy not great by the exploitation of undeveloped resources and peoples.

It is small wonder that Brailsford of England calls the system economic anarchy and that a Chinese writer just awarded his doctorate at Harvard declares, "The American capitalists have been as irresponsible as the Chinese militarists in dealing with their fellow men."<sup>13</sup> The economic order has now changed so radically that the profit motive fails to gear into the rapidly moving economic mechanism and is daily becoming more and more dangerous to the public welfare.



*PART THREE*



## CHAPTER XIII

### A CAPITALISTIC CULTURE

SUPPOSE the life of all the people of America or Great Britain could be thrown on a mammoth moving-picture screen; one might then sense the fundamental patterns of their behavior. The dominant trends and colorations would stand revealed. One could see at a glance that the occupations of men or the absence of occupation profoundly affect their entire way of life. No matter what aspect of behavior was singled out it would be colored by the capitalistic system.

#### MONEY MAKES THE MAN

Here is a baby living in a company tenement in a steel city. The father is away working in the mill. Because of meager wages the wife has to take in washing as well as boarders. This baby catches cold because there are cracks in the wall and the mother cannot supervise his play. Another baby is born in a palatial mansion on the hill. His every movement is scrutinized by a special nurse; he is surrounded with every conceivable comfort and a countless number of toys to satisfy each passing whim. As these two babies grow older one is spoiled by the lack of attention, the other is spoiled by too much attention; one has rickets from the absence of the right food, the other indigestion from overindulgence in rich food. Both are affected by the capitalistic social order but in different ways.

But infants represent only the beginning of the process. Consider the adults of thirty-five or over. They are already separated into definite and distinct castes according to the pattern of the west. The rich do not go to dances with the poor. The millionaires do not mix with the miners. There is a gradation according to heredity, education, occupation, scale of living, and posses-

sions. Gross inequalities have become so commonplace that the man of poverty no less than the rich man accepts them as a matter of course. The minds of men have become unconsciously commercialized. Nearly every aspect of life, from the newspaper to recreation, has become attuned to the dominant profit system. Most of the lawyers have "corporation collars" and are unconsciously subservient to the financial interests. Almost everyone, in fact, must make a living in the profit world; it is only the exceptional individual who can defy the system without suffering the consequences of his indiscretion. By middle age or over the average man is so firmly set in the capitalistic mold that he considers any embarrassing questions regarding the existing *status quo* as a sign of bolshevism or other "mental aberration."

In previous chapters we have been describing the processes of capitalism. We now turn our attention to the resulting product. Culture is the sum total of the ways of doing and thinking things in any society. It includes knowledge, belief, art, morals, law, custom, and all the rest of the social heritage.

If we examine the life of the rank and file of any people we find they tend to behave alike. There is an orderliness about man's behavior everywhere. This is partially expressed in the popular term "the common herd." Although superficial distinctions do exist what is surprising is the similarities, not the differences. We have standardized behavior habits which are almost unconsciously practiced. The economic life is so penetrating that it creates certain modes, which in turn create certain habits. If one were to describe society as one would describe the life of a colony of ants he would be struck by the fact that so much of life is routine. For instance, we usually eat about the same time, wear much the same general type of clothes, sleep at certain hours, and take off our hats when we meet ladies. Similarly, we have unconsciously accepted capitalism as part of the going routine.

#### MONEY MAKES THE MANNERS

Sumner long ago pointed out that folkways and mores are behavior patterns important for survival. Our folkways and

mores have become interrelated with the capitalistic civilization in which we are immersed. The moving pictures, the radio, the press, all tend to give much the same eye and ear stimuli to people all over the country—and these mechanisms of communication are all capitalistically controlled.

Consider the following behavior patterns of man in a capitalistic society and notice how closely related they are to profit getting or how dependent they are on profit making for financial support.

Amusements.

Art.

Burial.

Dress.

Education.

Family life.

Food habits.

Occupations and industries.

Manufacturers' associations.

Medicine.

The press.

Property.

Religion.

Shelter.

Textbooks.

Transportation and travel.

Utensils and tools.

Weapons.

An impartial analysis would reveal that every single one of these items is affected by the profit economy in which it is immersed. This fact may be all the more important and influential just because we do not often stop to realize the extent to which it is true.

#### WORSHIPING CAPITALISM

The cultural heritage thus becomes like the air we breathe. A child grows up in it, he absorbs it, he adjusts to it, and accepts it without question. Similarly with the capitalistic trends



in our social heritage; we breathe them in from the cradle to the grave until they are as much a part of ourselves as the very air. In 1934 a study was made of the attitudes of some of the religious youth of Memphis, Tennessee. Out of 131 who were asked to "make a list of conditions, places and attitudes which need to be changed in Memphis before it is a truly Christian community," one responded that it was already Christian, forty-four could think of nothing to put down, while only eight suggested anything directly relating to the economic life. When asked, "In what way would you be willing to set to work to change these conditions?" sixty-four had no answer to make while five others gave the following replies:

"No changes are possible under present conditions."

"Making change is none of my business."

"Too egoistic for active participation."

"Prayer."

"Not interested—will try to take care of myself."

Only forty-one out of a total of 110 who answered this question could think of any positive suggestions to make.<sup>1</sup> This is but one concrete example of many tending to show that youth has rather complacently accepted the economic system as it is.

Not only is there a tangible social heritage made up of such material things as automobiles, skyscrapers, and the coin of the realm, but there is also an intangible culture made up of beliefs. Most people believe in God, in private property, in patriotism, in nationalism. As the child matures into manhood he tends to accept the commonplace phenomena of the cultural heritage. It has become almost as much a part of him as his hand. He would not think of going out on the street without clothing. In much the same way he has similarly acquiesced in the ideas of God, capitalism, and the other fundamental tenets of our particular culture. Since mankind is still markedly egotistical each group has a tendency to think more highly of its own culture than of any other. America has built her life around a capitalistic method of self-maintenance. We look askance at a communistic

pattern; it may be sixteen years before a capitalistic power will even recognize officially that a communistic order exists.

#### EATING CAPITALISM

The capitalistic culture is very subtle in its pervasive influence. Take, for instance, the problem of food. No longer does the average child assist in the process of wresting food products from a benevolent nature in order to turn them into consumption products for his particular family. Instead, the family buys its food from a capitalistic concern. When the author was a boy, if he wished ice cream his mother required that he make it. She would prepare the custard, but he would have the labor of freezing it. Moreover, the custard was prepared from eggs which were produced in the back yard. Today a child who wants ice cream buys it from the local store, which in turn may have purchased it from the National Dairy Products Corporation, a billion-dollar concern. Not so long ago the housewife prided herself on her ability to make bread; today she buys it from a national trust. No matter what food is wanted it is likely to be purchased from some national concern, whether it is meat from Swift or Armour, or corn or soup from one of the fifty-seven varieties of Heinz or Campbell. In other words the child accepts the fact that his food normally comes from profit-making concerns. He may not know what this means, but he accepts the fact that the food he consumes is bought from stores with money. The adult has grown so used to this that he never gives it a second thought.

#### WEARING CAPITALISM

When we turn to clothing, the family no longer produces it. It is bought from manufacturing establishments who make and sell it at wholesale for profit. They gladly promote standards for expensive clothes, even in high school. For instance, in Muncie, Indiana, the wife of a workingman with a total family income of \$1,600 said, "No girl can wear cotton stockings to high school. Even in winter my children wear silk stockings with lisle or imitations underneath."<sup>2</sup> This is symptomatic of the material-

istic standards which have crept in all over the country in the matter of dress. In 1913 the United States produced only 1,500,000 pounds of artificial silk. By 1923 the country was producing over 33,500,000 pounds. The evidence taken in Muncie showed that frequently working-class parents, when unable to keep up with the clothes standard in the schools, felt they must take their children out of the educational process entirely. Time after time a mother would declare, "She stopped because she was too proud to go to school unless she could have clothes like the others." The depression may have aided in breaking the silk standard, but not our bondage to standards indirectly promoted by profit agencies.

#### LIVING IN CAPITALISM

Housing is perhaps an even more important index of our materialistic standards than clothing. First, *where* you live is important; if you live down near the railroad tracks you belong to the lower strata; if you live up on the hillside or in an aristocratic neighborhood you belong to the upper strata. In the one case you probably live in tenements or little ramshackle wooden huts; in the other your residence is a palatial home of stone or brick. In Muncie, Indiana, the working-class homes were described in these words: "Loose little one-story oblong wooden boxes with a roof and with partitions inside making two to four small rooms." In 1925 an investigation of Zanesville, Ohio, showed that 39 per cent of the homes lacked both bathrooms and plumbing. In Muncie one in four of all the city dwellings lacked running water. Ordinarily, those who live in homes without running water and bathtubs do not associate with people who live in the palatial mansions on the hill. All this was clearly brought out in the study of Muncie, where one's social status depended on where one lived. Indeed, one of the leading citizens of the town declared with a flash of insight that it was "an almost universal local custom to place newcomers in terms of where they live, how they live, the kind of car they drive, and similar externals." As this citizen remarked, "It is perfectly natural. You see they know money and they don't know you."<sup>3</sup>

Producing or getting food, clothing, and shelter thus inevitably reënforce capitalistic standards on group life until capitalistic values become so set in habit patterns that they are as difficult to disturb as though they had been set in concrete. Finally the responsible citizen comes to think of the highest values as being impossible of attainment outside of a capitalistic order. As one of the largest manufacturers in an eastern city declared at a religious conference on Americanization, "The best and only way to Americanize foreigners is to make them own their own homes, to capitalize them, then they are American." In Muncie, Indiana, an editorial under the caption "Your bank account your best friend," declared, "The Bible never spoke a truer word than when it said, 'But money answereth all things.'"<sup>4</sup>

#### ACHIEVING CAPITALISM

Closely related to food, clothing, and shelter is the factor of employment or nonemployment. Although it is the capitalistic system which itself is responsible for the millions who have been unemployed in the United States, people nevertheless hate to admit that they belong to this great army. They usually try to disguise it. The American standards are such that the individual who is unemployed feels that he is at fault in some way, while he who is wealthy accepts it as a clear proof of his own merit. Those with positions in turn are usually divided by a money standard. High incomes and good positions tend to induce their holders to have a consciousness of kind, they become part of a certain set. On the other hand, those with the highest incomes—the élite—are looked up to by those just below in the social ladder. The social register and blue book are methods of classifying those who have made the most success under capitalism. College graduates tend naturally and almost unconsciously to speak of their fellow classmates in terms of monetary success; the man who, after twenty or twenty-five years out of college, has amassed a fortune is considered to be perhaps the most distinguished member of his class.

This money scale of valuation runs from the most wealthy group in American society down to the poorest. Whiting Wil-

liams, long ago, after working at first hand with laborers and with capitalists, declared that most of them were working to secure a feeling of social worth; but he clearly recognized that social worth is also measured in terms of the kind of work which the individual does, his compensation, and his wealth status. Thus a capitalistic culture powerfully molds the attitudes and the life of America. Even in the case of leisure, as we shall see in a subsequent chapter, recreation has been so largely money-motivated in the United States that leisure-time standards are largely set by those who are in the race for profits. In other words, recreation has been commercialized.

All this does not mean that there are not aspects of our culture which are good, or that there are not individuals and groups who are not dominated by the profit motive. As we noted in the last chapter, it is conceivable that it is just because there are so many who are not entirely profit-controlled that the social order functions as well as it does. We are nevertheless, on the whole, living in a money culture. The material side of our civilization is made up of things which are produced almost entirely for private profit. When we turn to the intangible culture, the norms, ideals, and beliefs which dominate American life, we find the overwhelming majority are molded into conformity with capitalistic standards.

Take, for instance, the following list of traits of character of the American people. This is not meant to be exhaustive; undoubtedly many other traits could be recorded. It will be noted, however, that not a single item in the following list is opposed to capitalism; rather nearly all reinforce profits and the capitalistic way of life.

Adventurousness.

Business-first spirit.

Commercial absorption.

Complacency.

Conformity.

Courage.

Dualism between the fact and the ideal.

Efficiency.

Energy.  
Exaggeration.  
Get-ahead spirit.  
Honesty.  
Individualism.  
Initiative.  
Lawlessness.  
Money domination.  
Organizationalism.  
Particularism.  
Practicalness.  
Self-reliance.  
Superficiality.  
Thrift.  
Worship of size.

It would be possible to draw up a similar list for the British people or any other capitalistic nation. Striking differences would occur, but it is doubtful if the list would be in opposition to the standards of capitalism.

#### WORKING FOR CAPITALISM

Some years ago the writer completed a study of the Russian immigrant.<sup>5</sup> A visit was made to all the important Russian colonies in the United States. The Russians were asked to state what was the most characteristic feature of American life, what represented the fundamental spirit as they had seen or experienced it. The answers of Russian workmen and priests were surprisingly alike.

"No heart in American life."

"Busy and business."

"Each help self."

"Rich man's land."

"Money."

"Love of self."

"There is no sympathy here."

One priest, in order to illustrate his conception of America, went to the door and pointed to the mountain of coal dust and

cinders at the mouth of the mine near-by, saying, "That is the cinder of America—materialism."

Some expressed the conviction that America, for them at least, was bad.

"If money in pocket Americans like you; if not, don't care and swear at you."

"America place like heaven for rich, but like hell for foreign worker."

"As a wild animal or bird in a cage, so lives the Russian here."

"America is not free for the workers. They are beasts like horses."

"I think American if he has condition as has foreign man, became long ago Bolshevik."

"Today we Russians are friendless. Hatred is preached against us everywhere. The word Russian is enough to make an enemy, and put one in danger."

"At home we used to have a Tsar, here we have a superintendent."

These answers may be crude and incoherent, but they represent the reactions of a large group of foreigners to American civilization. It is true that Russian immigrants have no doubt seen the darker side, but it is indubitably a part of American culture. If one were to ask a similar question of those at the top of American life he would receive quite different answers, but in the large the ideals enunciated would be in hearty conformity with existing capitalism. The fundamental taboos in American life do not conflict with the acquisitive spirit. A child born out of wedlock bears a stigma; not so the rich promoter of questionable land values in Florida.

#### PREACHING CAPITALISM

While the church has, in its social creed, challenged slightly capitalistic standards, the overwhelming bulk of the churches are careful not to conflict with capitalism except in theoretic word preachments. This is especially true where the board of trustees or the church membership is made up of business people. This is clearly shown in the study of Muncie, Indiana, where the investigators found that the sermons tended to gear in with the domi-

nant values of the city in such topics as "Christ from Manger to Throne," and "Business Success and Religion Go Together."<sup>6</sup>

This study cites the fact that one of the prominent ministers, urging the claims of the church, declares "Godliness is profitable even from a business standpoint." Another minister of the largest Protestant church urged his congregation, "If God has given you wealth, be happy. If He has given you poverty, be happy." To the extent that this last ideal is preached in American life, religion does become the opiate of the people.

Fortunately, since the depression there has been a growing tendency on the part of the clergy to question capitalistic values. Even today, however, there is scarcely one minister in a hundred who will join in taking action to reduce public-utility rates or to urge the public ownership of utilities. Culture is civilization and modern civilization is capitalistic. Cultural traits tend to cluster into culture complexes. For example, the educational complex includes all the material things, the customs, folkways, practices, habits, beliefs, skills, etc., which combine to make up our educational system. The industrial complex includes all the material equipment and organizational structure which is necessary to carry on the economic life. All these cultural complexes are affected by the fact that we are living in a capitalistic civilization with a money culture dominated by a profit motivation. These culture complexes themselves fall into certain basic patterns. There is a cast or spirit to our culture. In America this has tended to be a capitalistic spirit.

Paul Tillich, professor of philosophy at the University of Frankfurt, one of the outstanding thinkers of our generation, declares, "Protestantism does not possess an independent culture apart from capitalistic society." It is the religious life which should offer a challenge to the spirit of capitalism if any challenge is to be offered, and yet it is precisely in the religious sphere that Professor Tillich finds there is no independent culture.

Thus we find that even ethical ideals become subservient to economic ends. Perhaps the most dominant characteristics of the past few decades in American life have been the rise of



natural science, technology, and the capitalistic economy. This means that the mass of mankind has become impoverished spiritually for the sake of service to the machine. Even the ethical ideal becomes subservient to the economic end. Instead of society recognizing that intangible spiritual values are the most important, it forced the science of the mind and the spirit to abdicate in favor of natural sciences. Unlimited desire for economic power tended to make mankind forget the infinite spiritual values of personality. The welfare of the mass of the common people was made subservient to the realization of profits for the few. Thus our culture has become a materialistic culture with its spiritual values harmonized with the spirit of capitalism.

### INDOCTRINATING CAPITALISM

The people everywhere should, of course, have been taught to expect this. They should know that any economic maintenance system tends to give color to the culture of the social order in which it is immersed. The world has recognized this to be true in the case of a fascist or communist culture, but it has not yet recognized that all culture is similarly molded by the patterns of the dominant way of life in each society. Wherever capitalism has established itself the culture has been warped in the direction of capitalistic values. For example, American culture is a capitalistic culture.

There is not much dispute about the essential facts. Even in 1929 James Truslow Adams pointed out that we were living in a *business civilization*. As he then remarked, "Most of the energy, ability and ambition of the country has found its outlet, if not its satisfaction, in business."<sup>7</sup> Even the universities "have come under the sway of the successful business men." "The entire religious system is in the same relation of dependence upon the business man," as is also politics. The basic characteristic of a business civilization is that it "has as its core the idea of a money profit and of a material standard of values."<sup>8</sup>

It is clear that civilizations rest on ideas and the dominant classes hand down the ideas. In capitalistic countries, and especially in America, the dominant group tended to become the

business class. It built a society based on material things rather than spiritual values. After indoctrinating the people that material acquisition was the *summum bonum* it was not able to give the masses even that. Capitalism built a materialistic civilization without adequate thought as to the ends for which its hierarchy of products was being created. It built a wealthy society for the few without adequate thought as to uses to which this wealth should be devoted.

#### PATRIOTIC CAPITALISM

It is not generally recognized that capitalism has gradually formed and continually propagates a "right" attitude pattern, not only in regard to such matters as property, taxation, wages, and trade unions, but also in respect to race relations, religious orthodoxy, judicial review, nationalism, social insurance, etc. As one view on each of these becomes accepted and is promulgated it becomes the "sound" view and consequently the "*American*" view. Every variant is branded as "un-American" or "Bolshevist." Thus the capitalists develop a consistent, pervasive, and inescapable "culture" while real liberty of thought and attitude becomes rarer.

#### CYNICAL CAPITALISM

It is not surprising that William Aylott Orton,<sup>9</sup> writing after the gloom of the depression had descended on society, should declare that because of our capitalistic culture, "Those achievements in thought, word, or deed, which constitute a permanent enrichment of the human heritage, and add to the meaning and the beauty of the life of man" do not exist in America. He believes that when paper finance began America lost its roots and the ideals which seemed to exist were actually perverted by capitalistic propaganda. He believes that a nation's culture is inseparable from the masters of its economic life and that in America the power of control was centralized in the hands of the millionaire. Art, government, science—all became just as commercially minded as the millionaires.

Whether one accepts this pessimistic viewpoint or not, it is

incontrovertible that we live in the midst of a money culture and a materialistic civilization. Even the president of the American Bar Association, in delivering an address to the students of the Harvard Law School in 1934, declared:

The most important thing about law is getting business. . . . Go to church even if it is hard to take. You'll meet a lot of nice people there. It isn't so important for you to see them as for them to see you. Now that's called the church racket, but what of it, as long as you're getting business in a quiet, genteel way! <sup>10</sup>

With such sentiments from the leader of the bar it is small wonder that law, on the whole, has consolidated the position of the dominant class. Our culture definitely teaches the masses to acquiesce in a social servitude. If they are unemployed they are to acquiesce; if they must live near the poverty line with only part-time work they must not hold protest meetings or storm the city council. Similarly, capitalism protects a small wealthy group who can live without working because of a family inheritance. Every capitalistic society has parasitic fungi feeding upon it. These parasites flourish at the expense of society no matter how strenuously they labor since they live through exploitation.

Even much of contemporary historical and philosophic thought up to 1929 displayed the usual tendency of thinking of so-called modern civilization as the climax and summation of progress. This is but one more proof of the all-pervasiveness of the dominant capitalistic culture and its ability to rationalize in its own behalf.

While it is impossible to set forth the exact part which capitalism has played in the various institutions of modern life, we shall nevertheless undertake in succeeding chapters an examination of some of the specific products of capitalistic civilization.

## CHAPTER XIV

### RE-CREATION OR MAL-CREATION?

MANKIND is a playful race. The normal, well-nourished boy would usually rather miss a meal than stop an exciting game. Consider any people, the Americans for instance. During their playtime some 30,000,000 will be tooting and bouncing along the highways in all sorts and varieties of gasoline-propelled vehicles. Other thousands may be sitting on narrow little wooden benches watching eighteen men intermittently run around a field, now and then diving into the dust at the feet of someone trying to catch a ball. Still other millions are sitting in darkened rooms watching a stream of light play on an aluminum screen. They sit entranced at what purports to be the secret lives of millionaires, bandits, murderers, and prostitutes, not to mention cowboys, wild-west Indians, and a variety of others.

Near most large cities are to be found "dreamland" palaces and other marvelous wonders, often built of white plaster. Here are a host of toys to amuse adults and children. For instance, there are little toy trains packed with people intent on getting the greatest possible thrill out of descending steep inclines at frightful speed and rushing around corners so that those of the opposite sexes are thrown together with great force. In other moving conveyors men and women are alternately enveloped in private compartments and then exposed to the public view, thus providing a moment of privacy difficult to secure at such joy centers.

The contrast between the pioneer days of frontier life and the present in the matter of amusements is profound. Then the open country, hunting, fishing, even encounters with Indians, entrancingly beckoned for constant adventures in the open. Now con-

gested cities, crowded highways, and professional "fun centers" are the vogue.

Play at its best is supposed to be re-creative. Even the very word *recreation* is an admission of this fact. Actually, a good deal of modern play is not re-creative but, instead, demoralizing to personality. It should rather be called mal-creation, for it is creating negative values.

#### PLAIN PLAY

Apparently a good deal of the mal-creation occurs where capitalism and the profit motive enter. Occasional damage may be done by private agencies with nonprofit recreational programs, but for the most part their activities are reasonably constructive and socially helpful. Consider the work of such agencies as the Boy and Girl Scouts, the Camp Fire Girls, the boys' clubs, the Knights of Columbus, the Christian Associations, the Y.M.H.A. and Y.W.H.A., community centers and settlements, missions, music, drama, tennis clubs, and other private organizations. Again consider such public or semipublic recreational centers as playgrounds, parks, swimming beaches, golf courses, tennis courts, country clubs, picnic grounds, parks, schools' recreational centers, public libraries, and fraternal groups. Consider home recreation. All of these may not be as intelligently conceived and conducted as is potentially possible, but in the large most of them are doing a positive service.

#### PAY PLAY

When we turn to commercial recreation conducted and carried on by capitalism for profit we have a wide variety of agencies, including saloons, bathing beaches, amusement parks, skating rinks, bowling alleys, pool and billiard rooms, dance halls, vaudeville, burlesque, regular theaters, and moving-picture houses. About every one of these commercial agencies there is question. No doubt most of them do furnish a form of play, but if so nearly every one also adds as a by-product a form of *mal-creation*. It is impossible to prove scientifically the proportions, but such evidence as we have would seem to indicate that a large

part of commercial play has a decidedly harmful, toxic effect. If so it is a factor which capitalism has to accept as a part of its costs.

Recreation is one of the most fundamental instinctive urges of mankind. Almost as soon as a baby is born it begins to want to play. Most adults never lose this desire, although the form of its expression may be greatly modified. Recreation in some form or another is a universal want. It is an integral part of the whole cultural base of our civilization. Since we are living in an industrial and capitalistic civilization, all recreation, whether or not it is profit-motivated, is to some extent affected by the milieu in which it is immersed. Nevertheless, because on the whole it is divided into that which is profit-motivated and that which is not, we can appraise to some extent the effect of the profit motive. No attempt will be made to cover all the varied forms of such amusements, but certain of the more important aspects of profit-controlled recreation will be considered.

On the plus side capitalism has given people more playthings than ever before in history. It has catered to and stimulated new outlets for play. It has provided amusements without stint, from golf to movies and dance halls. It has been quick to seize on such a popular amateur game as baseball and build it up into a monster national commercial pastime. Municipalities have been nowhere near so ready to build up recreation facilities of a non-profit nature. It is estimated that a city should provide one acre of recreation for each 100 of population. Yet only nineteen out of 124 cities of from 25,000 to 30,000, and twenty out of the ninety-three cities with 50,000 to 100,000 population, and twenty of some ninety-five cities of 100,000 or more population, have reached the standard.<sup>1</sup> On the other hand, it must be remembered that commercial interests often oppose public recreational facilities.

Capitalism also caters to the whims of the people. Whether it is penny arcades, dancing, or salacious pictures, capitalism tends to meet the demand regardless of its consequences to the group. On the other hand amusement is only provided if and

when it brings profits, thus restricting certain of the higher cultural forms of entertainment.

Today the trend is to cut down the hours of work in factories, shops, and mines; but while this is being done we are not attempting to meet the recreational needs of the people. Again, capitalism has aided in the routine mechanization of jobs. The result is that more people than ever have unsatisfied recreational desires.<sup>2</sup>

Capitalism has also given us more leisure than ever before—with millions unemployed this is apparent. Unfortunately, unemployment is frequently a barrier to the right use of leisure, as is shown by the following case from the study of the leisure hours of some 5,000 people by the National Recreation Association.

A woman executive who had been employed at a good salary for fifteen years without any vacation during the summer was finally laid off. She now had her much-desired free time if she could have afforded week-ends with friends, tennis, and swimming. Actually, she has not been able to afford this recreation and has had to spend her time from nine to five each day in hunting odd jobs. The recreation association says "Hers is the tragedy of a greatly increased margin of leisure which has not proved to be free time because of the great strain under which she is laboring."<sup>3</sup>

Capitalism has secured the mass production of amusements, thus cheapening the cost to the consumer. It has also aided in the popularization and cheapening of the automobile, which has provided outdoor recreation for millions. Here capitalism is not selling recreation direct but rather potential recreation. An automobile may or may not be used for recreative purposes; that depends on the consumer.

#### PRODUCTS

In spite of these gains which capitalism has given to the people there is a heavy debit balance. Perhaps this can be seen if we compare profit-operated recreational centers with those provided by the public, defective as these may be. Consider, for

instance, an amusement park carried on for private profit at such a place as Savin Rock in West Haven, Connecticut. There, until the legislature acted, were some fifty-two gambling wheels, besides dance halls, scenic railways, etc. Illegal liquor resorts and immorality are common. The Girls' Protective Association reports that in getting girls into difficulties it is one of the danger spots of New Haven. Yale students have been known to contract venereal disease in patronizing the park.

In contrast to this take, for instance, the public amusement centers in the South Park district of such a notorious city as Chicago. There the city has provided a total of 15 regulation and 3 miniature golf courses, 565 tennis courts, 12 handball courts, 13 hockey fields, 146 baseball diamonds, 111 football grounds, 186 skating ponds, 13 bathing beaches, 36 outdoor and 11 indoor swimming pools, 18 bathhouses, 90 wading pools, 195 sand courts for children, 6 boathouses, 12,145 lockers for men, 10,074 lockers for women, 88 inside gymnasiums for men and women, 93 outside athletic fields for men and women with 50 outdoor and 5 indoor running tracks, and 195 children's playgrounds.<sup>4</sup> It seems to be the unanimous testimony of the social workers that in contrast to the situation in Savin Rock, where the park promotes immorality and lawlessness, these recreations are a potent force in promoting social well-being.

Again, compare the pool and billiard rooms, the cabarets, the night clubs, and the road houses which are run for private profit with the recreational facilities of the Y.M.C.A. and Y.W.C.A., which are nonprofit organizations. The result is so one-sided that it hardly needs further elucidation. Pool and billiard rooms, on the whole, when run for private profit are apt to degenerate into rather questionable centers, with gambling as one concomitant. The report by Reckless<sup>5</sup> on vice in Chicago shows that the cabarets make for the promiscuous mingling of prostitutes, gangsters, and college boys and girls. Drinking is encouraged and there is frequent intoxication both of men and women. The result is an increase in immorality. Reckless discovered that most of the cabarets were run in neighborhoods where vice



resorts were close by. Furthermore, he found many of the cabarets were run by criminal gangsters.

#### RED LIGHT AND WHITE LIGHT

At the night clubs girls are hired to entertain men. The Committee of Fourteen in New York City a few years ago investigated some 373 night clubs and speakeasies. Of this number only 52 were declared "respectable." In the other places most of the women hostesses were prostitutes. In addition to the paid employees of the night clubs 418 other women were discovered who solicited for immoral purposes. Besides this there were 260 procurers whose business it was to facilitate immorality between men and women.<sup>6</sup>

The investigation of the road houses by Reckless showed conditions not much better. Out of 171 road houses near Chicago, prostitution was openly practiced in 14, and in 32 others it was encouraged through private rooms. All but 29 sold liquor and most of the places permitted indecent dancing. These, then, are the scientific results of an investigation of night clubs and road houses. How do they compare with nonprofit agencies? Scientific studies of the work of the noncommercial recreational agencies in the various cities of the United States show that on the whole they are a comparatively wholesome influence and do provide genuine recreation.

Consider the evidence on dance halls. The studies which have been made of dances in nonprofit organizations, such as fraternal clubs and parish houses, show that on the whole they are reasonably well conducted and do render a genuine service. On the other hand, the dance halls which are run for profit are notorious for stimulating immorality. Ella Gardner,<sup>7</sup> in her report for the United States government, stated that delinquent sex behavior is the usual accompaniment of many of the dance halls. Criminals and prostitutes are tolerated and encouraged by the proprietors. Pick-ups are arranged and are followed by automobile trips where sex relations are indulged in. All sorts of women and men mingle together—schoolgirls, prostitutes, college students, professional men, and criminals. More recently the taxi dance hall

has grown up in our largest cities, where girls are hired by the management to dance with any and all customers for a certain price. Here the profit motive necessitates a girl's accepting the advances of any customer, respectable or criminal, healthy or diseased, sober or drunk.

#### OUTDOOR AND INDOOR

It would be perfectly possible to compare in like fashion non-profit recreation with that carried on for profit along other lines, but whether to a greater or less extent the contrast is universally recognized. It is not denied that a good deal of commercial recreation renders genuine service to the public. For example, take professional baseball. It undoubtedly has provided wholesome recreation for millions of the people. It has also the merit of taking the spectators to an open-air park where they can give vent without restriction to outbursts and catcalls of all descriptions. Even here, however, the profit motivation has not been without its effect. Only a few years ago the world championship matches were deliberately thrown by one group of players for private profit. At best baseball provides a passive, vicarious form of entertainment. It does not stimulate to the greatest extent the active participation of the spectators themselves in wholesome outdoor sport. Professors Elliott and Merrill, in a recent textbook on "Social Disorganization,"\* describe leisure-time activities of the urban American in the following words:

He goes to cabarets, where he listens to music that is either perverse in its rhythms or cloyingly sweet in its sentimentality. He drinks himself into a state of coma as he watches the performances in these places, or in their even more disreputable suburban counterparts, the roadhouses. After whirling about the brightly lighted floor of a "super-dance palace" he may become intimate with the first girl who will accept his advances. He spends his money at a rapid rate for the terpsichorean embraces of platinum blondes in taxi-dance halls. He attends burlesque shows, where his ear is diverted by unbelievably coarse "humor" and his eye is regaled with lavish displays of undraped feminine pulchritude. Even his outdoor games can scarcely be called recreative in the spontaneous sense of the term. After a game of golf on a summer afternoon, rendered tense by betting

more than he can afford to lose, he has several drinks in rapid succession in the locker-room, jumps into his car, and hurries home at sixty miles an hour. He may spend his Sundays riding bumper-to-bumper along the clogged highways, returning home in the evening with his head aching from gasoline fumes and his temper worn thin by jockeying through traffic. Recreation? Hardly.\*

The authors go on to say such commercial recreation is in reality "disorganization and disintegration of the basic units in the social structure," in other words, *mal-creation*.

#### SOCIAL POISONS

There are many social poisons which fester in the body politic under capitalism. One is gambling. This is carried on all over the United States. Probably its most serious forms are on the stock exchange, where it is not easy to distinguish legitimate trading from that which is harmful and negative. The New York Stock Exchange is, no doubt, the greatest gambling center in the world; but we have already described its processes in a previous chapter. The widespread gambling in stocks prior to 1929 played its part, as we have already noted, in the vast expansion of credits of the boom era, with the inevitable subsequent collapse. The widespread failure of banks throughout the United States was partly attributable to this same spirit of speculation. Since the depression race-track gambling has increased on a large scale. It is but a short step from race-track gambling to illegal forms of betting of all sorts.

Two national syndicates, the Empire and the General (now reported consolidated), furnish race-track news to the pool rooms of the country. They are, of course, allowed to use the wires of the American Telephone and Telegraph Company. Private individuals cannot send out the results of a race until fifteen minutes after it is over, which means that these news organizations have a virtual monopoly of all telegraphic racing news. In fact, the *New York Times* once reported a suit brought against these news companies by the *Morning Telegraph*, a racing paper, on

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the ground that they refused to furnish the *Telegraph* with the racing results, desiring to drive it to the wall. There is keen rivalry between such news syndicates. One of them is occasionally granted exclusive privileges at a certain track. For instance, this was true at Jefferson Park, New Orleans. A rival concern, which had been unsuccessful in securing the privilege of running its wires into the tracks, erected a tower at some distance and by means of large telescopes brought everything into view. The park officials erected a large canvas to obscure the view, and when that failed they anchored large balloons so as to prevent the outside agencies from getting the news. In spite of these handicaps the rival concern was able, by building higher towers, to get the racing results. The wire service of such syndicates goes into all the race tracks of the United States, Mexico, and Cuba. They report to the gambling bucket shops throughout the country.

The greatest objection to the bucket shop racing dens is that so many of them manipulate and defraud the people by inducing them to bet their money on horses they know nothing about, and that these people belong to the small-salaried class of clerks and laborers. The result is the inculcation of a spirit of "get something for nothing," often by illegal means. The fraudulent methods used are legion. For instance, a man who owns a fast horse will run him several times in such a way that he is sure to lose and so build up a bad reputation. Finally, he will run his horse where he is certain to win. Then, with the odds heavily against him, the owner will send money all over the country to bet. Those who are on the inside and know will win.

Since there are so many inside games it is natural that a great many tipping bureaus exist to share "inside" facts. A man who lives outside New York must pay fifteen cents a copy for his racing paper. The *Daily Racing Form*, the *New York Press*, and the *Morning Telegraph* all accept questionable advertising. In them are advertisements offering inside information about the races. In many instances these advertisements will refuse to accept any business which is done by mail—this because the United States government prosecutes anyone who uses the mails

for illegal purposes. The advertisements stipulate, "Positively no mail accepted." The following advertisement, which could be duplicated many times, speaks for itself: "If money is sent to Mr. Stutz or his agent through the mail, he will return it."

Many lesser forms of racket in gambling are being perpetrated. For example, in Connecticut Carney Lewis not long ago collected thousands of dollars from the clearing-house game. This consists of a weekly ticket of five numbers which pays \$1,000 in cash to the lucky winner, one out of 99,999. The fortunate one has the lucky last five numbers of the U. S. treasury balance.<sup>9</sup>

All of these minor forms of gambling are of course stimulated by profit-motivated enterprise. As one workingman declared, "The wealthy crowd gambles on the stock exchange; we folks have to have our fun too."

#### CAPITALIZING ATHLETICS

Capitalism has also, to some extent, corroded amateur sports. Boxing, which used to be conducted largely on an amateur basis, has now become thoroughly commercialized. Mr. Rickard incorporated Madison Square Garden, and today 319,000 shares are listed on the New York Stock Exchange. At the first Dempsey-Tunney fight 135,000 spectators paid \$2,000,000 for their seats. Mr. Dempsey received \$750,000 for thirty minutes' work; Mr. Tunney carried away \$450,000; Rickard, the promoter, received \$437,000.

Both football and tennis are now in the professional ranks. College boys are being dragged out of the halls of science to swell the ranks of professionalism. Red Grange received \$375,000 on the day he left his amateur status. Stuart Chase reports:

At the same time the use of his name was sold to a sweater company for \$12,000, a shoe manufacturer for \$5,000, a cap maker for \$2,500, and to a cigarette company for \$1,000, the latter bargain doubtless due to the fact that Red never smokes. A candy company sold 6,000,000 "Red Grange chocolate bars" in 30 days for a consideration not disclosed. During this period Red received 187 telephone calls, 60 telegrams, and 30 personal visits from commercial firms eager to capitalize his name and fame.<sup>10</sup>

Even intercollegiate football has become largely a business proposition. The profit motive is dominant. The stockholders must have their returns. The investigator for the Carnegie Foundation says, "As matters now stand the fundamental purpose in intercollegiate contests is financial and commercial. Monetary and material returns from intercollegiate athletics are valued far more highly than the returns in play, sport, and bodily and moral wellbeing."<sup>11</sup>

In conclusion the Carnegie Foundation report says, "The commercialization of the intercollegiate athletic policy in the United States is undeniable."<sup>12</sup>

So financially profitable did amateur football become that huge stadiums have been built. The Yale Bowl, dedicated in 1914, seats 74,000; that at Ohio State, 63,000; Northwestern, 74,000; the University of California, 74,400; the University of Southern California, 80,000; and Stanford, 88,000. All of these stadiums cost over \$1,000,000. The one at Ohio State cost over \$1,500,000. For the fiscal year ending June 30, 1931, Harvard took in over \$1,000,000, of which football contributed over \$891,000. While huge incomes and large expenditures are being used to train a mere handful of players, an athletic program designed for all the students is often being neglected. For example, Professor French of Ohio State University, in a report to the National Collegiate Association in 1924, reports that Ohio spent only \$13,000 during the year for her intramural program. Minnesota spent \$11,000 and Michigan \$10,000. Stanford University, with athletic profits of \$194,000, spent \$7,500 on intramural sports.<sup>13</sup>

In view of the commercialization of college football it is not to be wondered at that the head football coaches receive high salaries. The Carnegie Foundation reports that in ninety-six leading universities the average salary of the head football coach is \$6,107 and runs as high as \$14,000, whereas the average of the full professors in the same institutions was only \$5,158 and the highest salary was only \$12,000.<sup>14</sup> The Carnegie Foundation found that the amounts spent "for coaching and training clearly reflect a distorted scale of academic and athletic values." It is small wonder that in a capitalistic civilization football coaches

and star football players receive much higher rewards than many scientists who have made genuine contributions to the scientific life of the world. Knute Rockne was probably better known than the presiding officer in the House of Representatives. In many cases less consideration is given to the character of the coach than to his success in turning out winning football teams. Perhaps it is not too extreme to say that we find the same type of distribution of values in intercollegiate football that we find in our capitalist economic order. The star football player is often considered by society as the outstanding product of the university. He may be barely passing in his grades and go out incomparably less fitted to serve society than scores of his classmates, but he receives the popular acclaim.

#### DAY OF REST

Recreation in a capitalist culture tends to take on the color of the cultural base. This base is profit seeking. The central drive is not to provide wholesome re-creation of the lives and happiness of the people, but rather to secure the maximum amount of profit for the few. Capitalism and industrialism have gone hand in hand. Scientific discovery and mechanization, which might have been placed at the service of all the workers, have been used to rationalize and speed up production. The result is routine mechanized jobs. The individual worker at the end of a week of work in a mass production factory frequently has the cumulative effect of outraged biological deprivations. Recreation, which should provide wholesome re-creation of the individual and group life, has fallen into the hands of the profit makers. They therefore tend to cater to the workers' desire for thrills—with the result that workers enter the job on Monday morning less fit for their work than they were when they left at the end of the week.

#### UNFAIR COMPETITION

Commercialism also retards the social development of play by the community. It is extremely difficult, for instance, to establish municipal moving-picture theaters because of the great power of

financial interests represented by the moving-picture owners. While great advances have been made in the last thirty years in the development of nonprofit recreation a great deal remains to be done. For instance, the Cleveland Recreation Survey tried to plan scientifically for the recreational needs of Cleveland. It decided that a total of roughly 6,800,000 hours of recreation away from home was necessary to meet the needs of the people. It suggested that 43.4 per cent should be handled by public service, 10.3 per cent by private philanthropic agencies, 25.4 per cent by coöperative agencies, and only 20.9 per cent by commercial agencies. The coöperative agencies referred to are such self-supporting organizations as clubs, lodges and the like. To carry out such a program would require 500 full-time leaders for the public playgrounds and the vacant lots. It is extremely doubtful whether capitalistic interest would tolerate the expenditure of funds raised through taxation for such purposes.

#### COSTS

Professor Steiner, in his report for the President's Research Committee on Social Trends, estimates the annual cost of recreation in the United States as just over \$10,000,000,000. In this estimate, however, he merely includes in the commercial field moving pictures, cabarets and night clubs, radio and radio broadcasting, and entertainments for which an admission charge of 75 cents or over is made. It is obvious that this is a very small part of the total of commercial recreation in the United States. Stuart Chase estimates the total, including pleasure motoring, flying, candy, and tobacco, in part, as over \$21,000,000,000 in 1929, which would be almost a fourth of the national income. If society could spend even 5 per cent of this amount in constructive forms of wholesome and planned recreation we should have reasonably adequate facilities for play in the United States. It would, of course, be possible for the people to have far more fun at far less cost, but with the whole pressure of capitalism pulling in the other direction there is scant hope of this. Instead, the drive will be for the people to buy two cars where one should suffice and to have a radio in the auto as well as the home.



In 1932 an outstanding business concern, the publishers of *Business Week*,<sup>15</sup> made a study of recreation during the previous decade, and found that expenditures for commercial recreation far exceed those for private recreation. Its conclusion was that "the outstanding feature of the picture of pleasure expenditure by the American consumer during the last ten years is the dominant and relatively increasing importance of the commercial or professional kinds of recreation as contrasted with the private, personal or individual varieties." What else could one expect in a profit economy? The President's Committee on Social Trends has similarly pointed out that the increase of commercial amusement has meant that less and less time is being spent on creative uses of leisure time.

#### COST CUTTING

Commercialization has cheapened the product to the consumer. Instead of trying to produce the best possible entertainment the effort has been to make the largest profit at the least expense. This has resulted in enormously increasing the sex appeal, with consequent social cost to the public. Commercialism has also stimulated a small group of professionals to take exercise for the rest of us. Capitalism has created recreation in its own image. Instead of providing adequate parks and playgrounds for all to use we develop one good professional field where all can watch nine others play. For less money than we now spend on baseball annually we could have adequate public tennis courts, golf courses, gymnasiums, bathing beaches, and athletic fields in the use of which all could participate, and with little or no further cost.

#### CINEMA

Probably the two most important forms of recreation in the commercial field are the radio and the moving picture. We will discuss the radio in a later chapter. The moving-picture industry ranks fourth in importance in the annual production of America. It represents an investment of some \$2,000,000,000. There are over 22,000<sup>16</sup> moving-picture theaters in the United States and each week some 77,000,000 people attend the movies, including

11,000,000 under fourteen years of age.<sup>17</sup> The official statistics of the Motion Picture Producers and Distributors of America in 1934 are as follows:

MOTION-PICTURE THEATERS IN THE UNITED STATES

Class	Number	Seating capacity
Total theaters .....	<u>18,371</u>	<u>11,028,950</u>
Circuit theaters, affiliated .....	<u>1,954</u>	<u>2,586,643</u>
Circuit theaters, unaffiliated .....	<u>2,846</u>	<u>2,493,382</u>
Independent theaters .....	<u>13,571</u>	<u>5,948,925</u>

The moving-picture industry spends about \$5,000,000 a year in advertising alone. America controls about 80 per cent of the world's production. Unfortunately, since the industry is operated for profit it is easier to produce pictures which appeal to the sex instincts and to our love of conflict and cheap comedy than it is to produce original and valuable drama. Consequently, as a Russian immigrant expressed it, our movies are "all play, killing and sex."

More recently scientific studies have been made of the effect of moving pictures on immorality and crime. Blumer and Hauser made an exhaustive study of this question, and found out that moving pictures did directly contribute to criminal behavior.

#### SEDUCING CINDERELLA

It is not only through direct incitation to crime and immorality that the moving pictures exert such a corroding effect, but also through their portrayal of luxurious modes of living. Most of the heroes and heroines have money, fine clothes, and all the luxuries of capitalism. It is small wonder that 18 per cent of delinquent girls said that in their desire to enjoy the clothes, the cars, and the luxury portrayed on the moving-picture screen they had accepted the invitations of men to live with them. Dr. Oberholtzer, who was for six years a member of the Pennsylvania State Board of Censors, says:

Sex is the one patently dominant idea in the minds of the men who are gambling in the public taste for nasty photographic stories. The capitalist who is financing the picture-producing company, the executive officers whom he hires to make money for him, and the directors in the studios expend much of their time and energy in trying to devise that which will show the male and the female in some unusual and new relationship.<sup>18</sup>

He lists over fifty titles of pictures showing sex appeals, among which are: "A Soul for Sale," "The Married Virgin," "The Tiger Woman," "The Wolf Woman," "The Leopard Woman," "The Sin Woman," "The Hell Cat," "Pink Tights," "The She Devil," "It May Be Your Daughter." Producers frequently go out of their way to introduce the sex element. For instance, Barrie's "The Admirable Crichton" was pictured as "Male and Female."

The New York *Sun* once made this comment:

The greed of certain managers and the grossness or stupidity of their producers have resulted in throwing upon the screen a flyblown mess of kinetoscoped rot. . . . Why, otherwise, should a plot by Jules Verne, already a scenario of clean, exciting adventure, be so distorted as to include, utterly for the sake of indecency, two attempts at rape? <sup>19</sup>

The National Board of Review, which has been financed by the moving-picture owners, sent out in 1921 a questionnaire to 800 leading theater owners throughout the country. Only sixty-four replies, from the managers of 104 theaters, were received, but of these one-half replied that "the sex element in the pictures was too large" and only twenty-three answered that it was not. Carl Laemmle, president of Universal Film Company, says:

Several weeks ago I published a straight-from-the-shoulder talk entitled, "Which Do You Want?" asking the exhibitors of America whether they preferred clean, wholesome pictures or smutty ones. Instead of discovering that ninety-five per cent favored clean pictures, I discovered that at least half and maybe sixty per cent want the pictures to be *risqué*, which is a French way of saying "smutty." <sup>20</sup>

His conclusion was that the Universal might put out some pictures of that kind.

The recent study of "Our Movie Made Children," financed by

the Payne Foundation, shows conclusively the demoralizing effect of moving pictures on the young. The facts show that some 28,000,000 of American youth under twenty-one years of age visit the movies every week. This is roughly 36 per cent of the total attendance. What do they see? Dr. Dale of Ohio State University<sup>21</sup> classified 1,500 feature pictures put out by the leading companies—500 each for the years 1920, 1925, and 1930. He found that between 75 and 80 per cent of all pictures were love, crime, sex, or mystery films. In 1930 there was a definite shift away from love stories to sex and crime pictures. Dr. W. W. Charters of Ohio State University summarizes the findings by saying, "For children the content of current films is not good. There is too much sex and crime and love for a balanced diet for children."

In 115 pictures selected at random in 1932, 59 techniques of killing were depicted. The pictures also showed 449 crimes, including 43 attempts at crime. Revolvers were used in 22 pictures and knives in 9, while kidnappings occurred in 21. Four out of every five pictures showed liquor in use and nearly half the pictures were filmed in bedrooms.

The Payne studies made a sleep pattern of 163 children for a period of 347 nights, using an electrical apparatus. On the average, after going to the movies, boys showed an increase in restlessness of 26 per cent and girls of 14 per cent. The effect persisted as long as four or five nights. Going to the movies was shown to have about the same effect on children as staying up until midnight. Dr. Renshaw and Dr. Miller conclude, "The significant increases of fatigue are detrimental to health and growth, not only because of their known physiological consequences, but also because of the fact that the important inhibitions which serve to prevent misconduct are weakened."<sup>22</sup>

The study on the effect of the moving pictures on emotions concludes, "Profound mental and physiological effects of an emotional order are produced. . . . Unnatural sophistication and premature bodily stimulation result."<sup>23</sup>

The studies also showed that children are more violently affected by "horror pictures" than adults, and that for nervous

children the effect is apt to be lasting and harmful and may result in serious nervous difficulties. Professor Blumer of Chicago collected hundreds of statements from individuals about the effects of the movies. Among these were the following admissions:<sup>24</sup>

From a college senior: "All my earliest impressions were those of fear—very real and vivid."

From a college sophomore: "In short, the effect of that movie ("Dr. Jekyll and Mr. Hyde") was to make me afraid of the dark, and of all unseen passages. It was more than two or three years before I fully outgrew this fear."

One boy who had seen "The Phantom of the Opera" reported, "Even to this day I hate to go alone in a dark place without anybody with me, when I recall that experience when I was in the cellar."

There is little question about the effect of the movies on sex conduct. Dr. Blumer's data give scores of examples, among which are the following:

Female, 17, white, high school senior. "I have learned how to flirt, and how to handle 'em. I have also learned different ways of kissing, and what to say when made love to. I have had all kinds of chances to use what I've learned from moving pictures and I've taken advantage of them."

White, Italian (boy), 16. . . . "I like some love pictures, like Charles (Buddy) Rogers plays in. When you see these hot love pictures it makes you feel like going out and having sexual relations. A guy was out in a garden with a girl and after he became a father he left the girl. Pictures like that make a guy feel like going out and doing things. I took a girl to one of these pictures and we followed the picture and did everything they did in the picture. I got what I was after later."

A delinquent girl, 17. "The most responsible thing for getting me in trouble is these love pictures. When I saw a love picture at night, and if I had to go home alone, I would try and flirt with some man on the corner. If it was the right kind of a bad man he would take me to a dance or a wild party; at these parties I would meet other men that would be crazy for fast life."

Another delinquent girl, 17. "I like to see men and women fall in love in the movies and go out on parties, etc. It teaches me how to do the same. I also like to see them kiss, love, drink, smoke, and lead up to

intercourse. It makes me all stirred up in a passionate way. Love pictures, wild west pictures, murder cases are the pictures I like best because I like to love myself, and I know others want to do the same. After I see them I go out and love and have sexual intercourse and go on parties and only do worse. Movies teach me how to treat my men and fool them."

Out of 252 delinquent girls, 41 per cent attributed their difficulties to the movies; 25 per cent said they got from the movies their idea of living with and being supported by a man. Delinquent men admitted that they had used the moving pictures as a means of exciting the passions of the girls they went out with.

There is no doubt that moving pictures as they are being shown today are responsible for crime. In fact, 48 per cent of the 122 heads of penal and correctional institutions who were interviewed were convinced that the movies were responsible for delinquency and crime.

#### FAGIN

Boys and men in reformatories and jails admitted that among others they had learned the following methods of committing crime from the movies: picking pockets; using gloves in burglary; gambling and cheating drunken persons; posing as a gas inspector for the purpose of burglary; eluding the police by switching off the headlights, turning up an alley, and then speeding in the opposite direction; forcing the door of an automobile with a piece of pipe; opening a lock with a pair of tweezers; taking doors off hinges to force way into apartment; using glass cutter so window lock can be opened; pasting flypaper on window so glass can be broken noiselessly; using brace and bit to drill lock out for forcing entrance into store; opening a safe by the "feel" of the dial; using jimmy for a door or window; using an arc burner to burn out safe combinations; carrying a machine gun in a violin case; maiming or killing motorcycle policemen by swinging and stopping car suddenly; using pistols, shotguns, machine guns, blackjacks, brass knuckles, bombs.

It is probably true that the movies are not the main cause of crime, but roughly half of 110 inmates of a penal institution said that it was the movies that gave them the desire to carry a gun.

Fifty per cent of behavior-problem boys said that gangster pictures made them want to get money easily. Of 252 delinquent girls, one-quarter admitted "engaging in sexual relations after becoming sexually aroused at a movie."

#### ROOT OF EVIL

Capitalism may not be entirely responsible for the outrageous movies which are being produced, but there can be little doubt that were it not for the profit drive the films would be vastly better. Furthermore, at present the moving-picture interests force local theater managers to accept the bad films along with the good. The public and the moving-picture-theater proprietor have little to say in the type of films. In order to show any films a manager is forced to sign a contract for block booking, in other words to accept almost the entire list. The Motion Picture Research Council, with the former president of Harvard, A. Lawrence Lowell, at its head, along with others all over the nation, have tried to change the system without much avail. The real difficulty which stands in the way is capitalistic profits. The industry is less than fifty years old and is still in the gold-rush stage.

Professor Fred Eastman of Chicago concludes his studies of the moving-picture industry by admitting that it is *profits* which lie at the root of the ills in moving pictures.<sup>25</sup>

The industry does not pay Mr. Hays a salary, reported to be three times that of the President of the United States, for the business of censoring pictures. Producers are not so stupid as not to know when their pictures are bad. That salary is paid rather for the *purpose of protecting and increasing the profits of the producers*. Those profits are endangered whenever the public begins to clamor for any sort of social control over this industry.

#### BRANCH OF EVIL

It is small wonder that foreign countries protest the damaging character of American pictures. A New Zealand moving-picture exhibitor wrote:

It would be no exaggeration to say that nothing America has ever done or is ever likely to do has injured the standing of the United States as much as the pictures it has produced. . . . You could not persuade even a fifteen year old boy—1. That every American, from the President down to the toughest gangster, is not a hard drinker; 2. That there is an honest American business man, politician, judge or jury; and 3. That there is any such thing as a clean, honest newspaper man.

The *Daily Telegraph* reports the feeling in England in these words:

These people regard an American as a lawless, immoral individual, who carries a gun in his pocket at all times, and changes his wife as easily as he changes his shirt, doping his friends, shooting his enemies, attending petting parties, and bathing "Follies" girls in champagne. Can you blame them? Every one of those absurd ideas has been placed in their heads by you. American film-producers, American magazines, American news agencies—these are the responsible people.

In 1931 ninety American residents of Japan sent a protest to the Foreign Relations Committee of the United States Senate against the outrageously bad American films that were being sent to Japan. They asserted that it endangered the reputation of America in the Orient.

An American missionary in Turkey declares, "Hollywood continues to send its dirtiest to the Near East. And the theater managers give free shows to children to encourage their attendance. These are the sort of pictures shown for 'adults only' on South State Street."

Lord Irwin of India reports that Orientals have ceased to respect the white race after patronizing the Hollywood films.<sup>26</sup>

America desires payment for her European debts; she does not want war; but what the American people fail to see is that unrestrained capitalism is bartering away one of the most precious possessions of America—her good name—and all for dollars. This is the price we pay for the capitalistic system in the one field of moving pictures alone.

It is not impossible that the next world war, when it comes, will have been partly accentuated by the misunderstanding and



misrepresentation of profit-made moving pictures. In 1933 the correspondents of the *Christian Science Monitor* throughout the world reported on the deleterious effect of the American-made films. The representative from England said, "America's most powerful and pernicious spokesman in Europe today is Hollywood."

So bad have been the pictures in America that the Catholic Church in 1934 took the lead in promoting a Legion of Decency which required all members to sign pledges promising to stay away from all moving-picture theaters. This campaign soon had the endorsement of Protestant and Jewish leaders.

Any impartial study is forced to conclude that capitalistic amusements, far from being re-creative, are in many cases actually *mal-creative*. They are on the whole promoting such negative values as the breakdown of health, both mental and physical; the incitement to the wrong kinds of ambition or the killing of ambition; the degradation of taste and morality; and the increase of crime. In spite of many positive benefits, in the long run society pays an incalculable price in doctors, nurses, hospitals, psychiatrists, social workers, and custodial care for the capitalistic profit-motivated amusement system.

## CHAPTER XV

### INTERRELATED CRIME

CRIME is a phenomenon which has been present in all ages and will no doubt exist under any and all systems of human organization. It would be absurd to charge even by implication that capitalism is responsible for all the crime in the United States or any other country. It cannot be denied, however, that capitalism has a relationship to some crime.

#### ECONOMICS

Crime is to a considerable extent a disorder of the social organization which involves individuals. We have already shown that the capitalistic system inevitably creates periodic booms followed by depressions and accentuated unemployment. It has been indisputably proved that depression and unemployment stimulate crimes against property. A study made long ago in Bavaria showed that there was a direct relationship between the price of grain and theft. For every rise of 6 kreuzers in the price of grain there was one more theft per 100,000 of the population.<sup>1</sup>

This relationship, proved to have existed in the old world long ago, no longer necessarily holds in capitalistic America. The demoralization incident to depression, however, does promote crime. It is generally recognized that when bankruptcy or financial ruin threatens, even responsible business leaders often fail to withstand the temptation to stoop to dubious or illegal alternatives. It is small wonder that illegal action is taken by many more of those who for months, perhaps years, have sought to secure employment without success, and whose children and loved ones are threatened with starvation.

## EMPLOYMENT

A study made of 1,051 men admitted to Sing Sing Prison for the year ending October 28, 1930, revealed that "fifty-two per cent were out of work at the time of the commission of the crime."<sup>2</sup>

In the study of 500 criminal careers in Massachusetts, by Sheldon Glueck and Eleanor T. Glueck, it was found that roughly 60 per cent had held no job for over a year prior to commitment. Neither this nor the data about Sing Sing proves that unemployment necessarily is responsible for crime, but it seems likely that when a man is unemployed and hungry he is more prone to commit crime against property.

The writer once made a first-hand investigation of laboring men who were willing and eager to work but could find no employment. Repeatedly they declared that if they could not find work anywhere they would in the end commit crime before they would go without food. This reaction of the unemployed has been corroborated by many other labor investigators. In fact, Dr. Martin H. Bickham<sup>3</sup> of the Illinois department of labor believes that crime will never be substantially reduced until economic insecurity is banished.

During the depression it is growing more and more common to have released criminals ask to be returned to the penitentiary. To cite but one instance, Herbert Corwin, some time after ending a six-year confinement in prison, finally walked into the police station at Bridgeport asking that he be returned to Sing Sing. He declared it was his only alternative to stealing, since he could find no work.

Dr. Emma A. Winslow summarizes the conclusion of the National Commission on Law Observance and Enforcement by saying:

Unemployment is revealed as an important causative factor in vagrancy and crimes against property. . . . The conclusion seems inescapable that the assurance of economic security might be expected to bring with it an appreciable reduction in the volume of crime.<sup>4</sup>

Capitalism has thus far been unable to give an assurance of economic security. When people are in desperate want it is easy to commit crime. The defects of the distributive mechanism under capitalism are such that the few are in affluence and, in a period of depression, the many are in want. The result is an increase of crime.

#### GEOGRAPHY

Capitalism must also bear some responsibility for crime because the geographical distribution of families in the city is determined in large measure by economic processes. Families in the lowest income group are forced to reside in the most deteriorated and disorganized sections of the city where the rents are lowest. But it is precisely these areas which have been proved to cause crime.

The extended research carried on by the Institute for Juvenile Research and the Behavior Research Fund in Chicago, as well as that made for the National Commission on Law Observance and Enforcement, has proved conclusively that every large city has its crime areas adjacent to the central business district and the heavy industrial sectors. In these crime areas a higher percentage of delinquent boys become recidivists and the average number of times recidivists appear in court is far greater than in normal districts. Crime areas are usually known as slum areas. They are the poverty sections of our cities.

The invasion of industry or commerce into any district tends to deteriorate the dwellings adjacent thereto. The buildings which are not needed for business become undesirable and empty. They tend to fall into bad repair and are filled with workers at the bottom of the industrial ladder. Such delinquent centers are characterized by physical deterioration, high rates of dependency, and high rates of adult crime. Because these areas are populated by poor people, although the ownership of the buildings usually still remains with the propertied classes, little or nothing is done to enable the community within this submerged area to care for itself adequately. It cannot set up the recreational, educational, and cultural institutions which are needed to save its youth for

decent citizenship. The children are largely isolated from the traditions and influences of conventional society, and delinquency and crime are more or less permanent aspects of the social life of the community. The parents, because of the dearth of facilities for the proper care of their children, are unable to provide the safeguards that are necessary to protect them from the demoralizing influences that prevail in the area. The breakdown of parental control, the confusion of cultural standards, and the presence of criminal influences comprise a situation in which a large amount of delinquency is inevitable. The child attempts to adjust himself to the environment in which he finds himself. He satisfies through delinquent activities those impulses and wishes which in the neighborhood of higher economic status find their expression in socially approved activities.

Crime areas, in consequence, tend to become infested by highly organized and powerful criminal gangs who have grown up as a part of the neighborhood. Boys organized into these gangs are often in alliance with those who will dispose of stolen goods. Boys participate in the activities of these gangs because there is often no other outlet for the fundamental cravings for the fun and adventure of youth. In these crime areas are not only great poverty and dependency, unwholesome types of recreation, and inadequate open-air play facilities, but such homes as exist, usually in tenements, are in fact broken by the absence of the father at work and oftentimes of the mother as well. Usually the congestion makes impossible normal home activities for children. In these areas, furthermore, the family influence is weakened by the poor housing and the poor economic status of the family. Capitalism creates and tolerates the slum area which produces a high delinquency rate.

Shaw proved that in certain areas in Chicago the high rate of delinquency remained almost constant from 1900 to 1930, although the nationality of the population in the areas changed completely during this time. This would indicate that the crime was not due to the nationality or to the particular inherited characteristics of the people but was due to the environment. During the first part of this period the crime area investigated

in Chicago was occupied by Germans, Irish, and Scandinavians. Today it is occupied by Poles and Italians, but the rate is the same.

#### PLAYGROUNDS

It has been shown that if the slum area is improved, if adequate open-air playgrounds are set up, the rate of juvenile delinquency falls. Charles Edwin Fox, when district attorney of Philadelphia, studied a district for five years before and after the establishment of playgrounds. He says, "I discovered the remarkable fact that in the five years of playground recreation, the neighborhood showed a 50 per cent decrease in juvenile delinquency, as compared with the previous five years."<sup>5</sup> Similar results were found in a study made in Visalia, California. Yet out of America's 32,000,000 children under 18, only 5,000,000 are served by playgrounds, or less than one-sixth.

The scientific conclusions regarding crime areas have also been corroborated by the investigations of the Crime Commission of the State of New York and the studies by Frederic M. Thrasher of New York City.<sup>6</sup>

While the causes of crime are very complex and involve a very wide range of factors, including mental and physical conditions, it seems probable from the evidence we now have that the social and environmental forces are as powerful as any other factor. The Judge Baker Foundation in Boston has attempted to give scientific advice for the treatment of juvenile delinquents. Between 1917 and 1922 they prescribed treatment for 1,000 boys who had an average age of thirteen years five months. Five years after this treatment was supposed to have been finished the Gluecks located 923 of them. They found that 88.2 per cent of these boys, who five years before had finished the treatment which was supposed to cure them, had again become involved in delinquency. Seventy per cent had been arrested an average of 3.6 times each during this period.<sup>7</sup>

#### INDIFFERENCE

Since the studies made did not indicate sufficient biological hereditary handicaps to necessitate continued delinquency it

would seem clear that environmental conditions had not been sufficiently controlled. Crime is a product, to a considerable extent, of sociological conditions. We now know we can decrease crime by abolishing the crime areas. The crime areas themselves are part of the profit system. Our failure to abolish them now that we know that they are crime breeders is due to the unwillingness of the business interests to submit to the taxation which would be involved. Capitalistic forces usually oppose in any city expenditures large enough to provide adequate playgrounds for all the children. Furthermore, where there are such great extremes of wealth as in capitalistic America, and where these extremes can be observed by the poor citizen, it is only natural, as the chairman of the Committee on the Causes of Crime of Hoover's Committee on Law Observance says, that this inevitably stimulates crime. In a crime area, if the child compares the rewards of honest, hard-working laboring men with the rewards of criminals of the district, the comparison is largely to the advantage of the criminals, who have material enjoyments, prestige, and power. In these areas very frequently the social attitude is favorable to the criminals, who are treated with great deference. Some of them become the heroes of the boys of the community. Too often business interests have not united to abolish the conditions which make possible the affluent criminal, because they are themselves indirectly involved either through high rent, through political necessity, or other factors.

#### INCITEMENT

Capitalism also has an effect in promoting crime through its commercialized forms of recreation, as we have already shown in a previous chapter. It is impossible for moving pictures to dangle before the eyes of children the artificial, luxurious lives of millionaires without setting up false standards. Capitalists are shown to live in palaces with unnumbered automobiles at their disposal. After seeing pictures of this luxury the child can watch the living specimens roll by on the street in luxurious limousines; he can wander freely outside the department-store windows gazing at costly gowns, or if he cares to he can pass by the beautiful

and sumptuous mansions of the wealthy. It would probably be possible largely to eliminate the injurious effects of moving pictures were it not for profit-motivated capitalistic interest. Similarly, although to a much less extent, the press of the country has needlessly played up crime, because it too is interested in the sale of its papers and accordingly prints whatever will increase circulation and accompanying profits. A study of items in the *Chicago Daily Tribune* showed that of the topics on the front page crime led all the rest.<sup>9</sup>

#### DIRECT EFFECTS

It is also clear that the capitalistic system directly causes crime. In other chapters we have cited evidence of the bribery of government officials. The number of bank presidents and others who have been charged with defalcation or other crimes since the depression has been surprising. J. W. Harriman, president of the Harriman National Bank, was convicted on sixteen separate counts. Capitalism, by creating high standards of life for men of wealth and by exalting materialism, drives a great many individuals to value these factors above their honesty. Kidnaping rarely occurs except where there is great wealth. Lindbergh's baby has to be guarded day and night; not so the babies of the poor. It is impossible statistically to determine to what extent the capitalistic system is itself directly responsible for economic crimes, but there is a grain of truth to the assertion by Howard Scott that a criminal is an individual with predatory interests but without sufficient capital to start a corporation. It is significant that in 1933 an entire volume was prepared by the National Institute on Mercenary Crime which records instance after instance of crimes committed by capitalists or because of the capitalistic system.<sup>9</sup>

It is estimated that over \$1,000,000,000 is taken away from the people annually by financial racketeering, the sale of watered stock, and other corrupt methods.<sup>10</sup> Flynn cites one case of a banking house which claimed its compensation for reorganizing a bankrupt corporation was only \$200,000. After he examined what he calls "the various kinds of racketeering operations in



that reorganization" he estimated that the bankers made not less than \$15,000,000 out of the transaction.<sup>11</sup>

A. Lawrence Brown, a Chicago business man, estimates that the shrinkage in values and losses in the United States since 1929 has amounted to at least \$100,000,000,000. This is more than the combined cost of the World War to the United States, the British Empire, France, and Italy. He concludes, "By reckless investment and by stock gambling we destroyed that amount in three years."<sup>12</sup>

Professor Robinson, one of the leading authorities in the country on criminology, compares the quite ordinary procedure of many manufacturers with that of a pickpocket, in the following words:

The pickpocket appropriates my pocketbook containing \$25. He has added by this method to his wealth. He is on his way toward the common goal. The manufacturer sells me an article for \$50 which by every scientific test will not accomplish one half of the things which he claims for it. I cannot see that the pickpocket's method suffers by comparison with the method of the manufacturer, who has already relieved me of \$25 for which he has given nothing. The pickpocket's method as I see it is more frank, more open, and has less of deceit about it than the manufacturer's.<sup>13</sup>

The motive of a great deal of crime is frankly economic. The criminal does not understand why he should not also get a share in the "good things" of life. In many cases the child steals in order to secure clothes or to buy candy or athletic equipment. These articles are provided as a matter of course in the family with higher economic status. Their absence in the poverty group makes for juvenile delinquency.

Clifford R. Shaw, who wrote the volume on the "Social Factors in Juvenile Delinquency" for the National Commission on Law Observance and Enforcement, declares:

It seems to me that the relatively high rates of delinquency, crime, infant mortality and death from contagious diseases and the over-crowding and bad housing conditions which prevail in the so-called "slum districts" of the city are attributable in large measure to economic forces. The families in these areas are not economically able to secure the advantages

and the protections which the families of higher economic status are able to secure for themselves. It is probable that if the families in the slum districts were provided with the economic advantages which prevail in the outlying neighborhoods, in a very few decades the social conditions in such areas would correspond in most respects with those that now prevail in the outlying residential neighborhoods.<sup>14</sup>

#### CRIME MEDIA

In the larger sense capitalism must be held partially responsible for the increase of crime because it creates a social milieu which is congenial to materialistic values, to economic ends, to the endeavor to get something for nothing.

This is quite generally recognized by experts in the penological field. For example, Professor Louis N. Robinson declares that in America "the goal which we have seemingly placed above all others is the accumulation of wealth."<sup>15</sup> Naturally, the criminal accepts this standard and bases his own conduct upon it. Even the codes of ethics of capitalism are themselves materialistic. It is widely accepted that the greatest goal in life is materialistic success and that this is within the reach of all. When certain individuals see others reaching the goal through rather dubious capitalistic techniques while they fail, it is but a short rationalization to the use of illegal methods.

David H. Jackson, formerly head of the Securities Department of the state of Illinois, shows what a tenuous line there is between the legal and the illegal in business in these words:

We can all agree that certain ways of conducting business are clearly unethical or even criminal. There are others which require a special training in ethics if they are going to be approved. So a person reared on old-fashioned canons of honesty has to acquire a new slant on things if he is going to approve some of the rather common practices in high finance.<sup>16</sup>

Al Capone was once asked why he didn't stop committing crime, and is reported to have replied with pride, "Why, the biggest bankers and business men and politicians and professional men are looking—to me to—keep-the-system-going."<sup>17</sup>

Professor Nathaniel Cantor concludes a study on crime by saying:

It seems to me that one cannot possibly escape the conclusion that "mercenary crime" rests fundamentally upon the economic foundations of American civilization. . . . A more detailed knowledge of the causes of crime will reveal that our economic order is the base from which most of the crime-generating factors arise.<sup>18</sup>

W. A. Bonger, a noted Dutch criminologist, believes<sup>19</sup> that capitalism has enormously increased antisocial conduct because the materialistic outlook on life which it engenders weakens fellow feeling and stimulates criminal motives through inherent egoism and brutality, embittering the life of the poor and corrupting the rich.

In America the historical background of capitalism has been favorable to crime. The country inherited a philosophy of rights rather than duties. This philosophy was born of the fear of absolutism. The doctrine of natural rights grew up in colonial America. Individualism was lauded even by our presidents. Business enterprise was supposed to be left free and untrammelled so that the individual could amass the greatest amount of wealth.

Under the feudal system ownership was predicated upon the concept of service to the state. With the abolition of the feudal system this obligation completely disappeared. What under feudalism had been a limited ownership now was changed to an absolute ownership. Instead of service to the state a system of taxes was imposed, but the individual was taught he was entitled to do whatever he wished with his own. Consequently, the individualistic competitive principle triumphed over the co-operative principle. The community has therefore not been protected from the extortionate desires of the individual for profit.

The capitalistic system has encouraged this philosophy. The individual was made to believe it was moral for him to take all he could get even at the expense of the group. Meanwhile, large-scale corporations under the capitalistic system eliminated effective competition. Ownership was divorced from power and the

responsibility of management. Industry became dehumanized. It was run to protect the owners rather than the workers or the consumers. Bewildering social and economic changes took place, but the capitalists encouraged the American people to cling to the individualistic profit economy, with the result that the people have been made to feel that law should not interfere in their private right to the acquisition of profits. Government officials have been urged to give the corporations freedom to extract as much profit as they could get away with. The great public domain, which our forefathers took over when they came to the new world, was allowed to pass into private ownership. The great natural resources were allowed to be wastefully exploited for private gain.

This continued until virtually all the natural resources and productive land were in the hands of private individuals. No longer was it possible for the masses of the people to go west to secure free land. Uncertainty concerning the permanence of jobs became the great industrial fear. The result of the industrial revolution and the growth of modern capitalism was such as to promote crime. It is not surprising that a professor of sociology and a leading expert in the field of penology says, "The ethics of business are the ethics of war—and even more, essentially the ethics of crime." The survey of the jail population of Connecticut revealed a number of cases where a contributory cause of criminality rested back on the generally accepted principle of "getting something for nothing."<sup>20</sup>

At the risk of repeating what was said at the outset of this chapter the writer would again make clear that crime is the product of a variety of very complex factors. In the last analysis it involves a dynamic interrelation between the individual and his socio-economic setting. Capitalism alone is not responsible. Nevertheless, we cannot escape the conviction that it plays a very real part in promoting criminal behavior. As the chairman of the Committee on the Causes of Crime of the National Commission on Law Observance has stated, "It is clear that in the larger sense responsibility for crime rests upon society."

Our society is one in which capitalism is dominant.

## CHAPTER XVI

### A BUSINESS PRESS

THE eye and ear stimuli in any society are an accurate barometer of its character. In the modern world the three most important are the moving picture, the printing press, and the radio. Public opinion, as Walter Lippmann has demonstrated, is made up in large measure of stereotypes. In America the eye and ear stimuli are largely standardized in reënforcing certain stereotypes which inevitably tend to conform to our business mores. A study made for the President's Research Committee on Social Trends states, "No agencies of reenforcement can compare with the newspaper, the periodical, the motion picture, and the radio."<sup>1</sup>

Of these the newspapers had a daily circulation in the United States in 1934 of 35,836,100.<sup>2</sup> Some \$1,500,000 are spent each week by the American public on the Sunday editions of this press alone. Indeed, to publish a single New York Sunday paper may necessitate denuding ninety acres of forest spruce, fir and hemlock.<sup>3</sup>

The revenue of the American newspapers was \$977,648,187 in 1927. The purveying of news has become itself a big business. It is a far cry from the primitive agricultural communities, where everyone knew almost everything about everyone else, to our modern industrial civilization. Today the press attempts to supply the face-to-face relationships which urban life has partially denied to the people.

We have already seen that the swift changes in the past few decades have brought technological transformations, mass production, standardization, mergers and consolidations until we have finance and monopolistic capitalism.

Newspapers have themselves been a part of this process. The

Boston *News-Letter*, which appeared in 1704, was the first newspaper in America really to have consecutive appearance. Since then there has been an amazing development. Plants have been constantly getting larger, with more and more capital. New machinery has been installed with linotypes, type casters, and automatic stereotypers. Editors have become largely hired hands. The nationally known editors who owned all or part of their papers, such as Dana, Godkin, Greeley, and Medill, have disappeared. For instance, most people know that Colonel McCormick owns the *Chicago Tribune*, but few readers have the faintest idea who are its editors. A newspaper enterprise is a colossal affair. The *New York Herald Tribune* is capitalized at \$10,000,000. The *Kansas City Star* was sold for \$11,000,000, while the *Chicago Daily News* was sold for \$13,000,000.

Capitalism has not thus far blocked the publication of a wide variety of newspapers and periodicals. Socialists, communists, and anarchists can all publish their papers provided they can secure the capital to keep going. But there is a powerful financial censorship. Radical papers cannot secure the profitable advertising without which they must continually be hard pressed.

Up to 1900 the newspaper and the periodical were unchallenged agencies of mass impression. The daily newspapers reached their maximum number in 1917 when there were over 2,500. The weeklies reached their greatest number in 1915, at which time there were 16,323. It was not, however, until 1930 that the number of monthlies reached the figure of 3,804.<sup>4</sup> In 1933 sixty-four newspaper chains controlled 315 daily newspapers of general circulation, about one-sixth of the total number of dailies, and these chains extended into forty states.<sup>5</sup> Capitalism has certainly given us reading matter, daily, weekly, and monthly, but it is to a considerable extent standardized sensationalism. Some ten centers are responsible for most of the feature material and four or five cities are dominant for general news.

#### MERITS

Doubtless it is a fact that many of the daily newspapers give reasonably good service. It might be claimed that the American

press is even superior to that of other lands. Intelligent traveled Americans believe with some show of reason that there is probably no better newspaper (considering all its features) anywhere than the *New York Times*. Other papers such as the *New York Herald Tribune*, the *Baltimore Evening Sun*, the *St. Louis Dispatch*, and the *Christian Science Monitor* maintain a fairly high standard in reporting contemporary economic, political and social problems. In the case of the last named, the *Monitor*, we have a paper which is not carried on for profit and is therefore in a class by itself. Some of the press have championed the unpopular side on occasions and have often rendered notable public service, as the Pulitzer prize awards have shown. A number of newspapers in the south fought the Ku Klux Klan while it was still in the heyday of its power. Don Mellett of the Canton, Ohio, *Daily News* was killed because he attacked vice in that city. The *Boston Herald* came out for a rehearing in the Sacco-Vanzetti case.

Even an occasional chain of newspapers has done notable work. The Scripps-Howard group has probably been outstanding. Edward W. Scripps, its founder, was determined to have a newspaper for the "under dog." He instructed his first editor that he was not to be subservient to money. This tradition has affected its policies ever since.

It is also true that in some kinds of news the press has a high reliability, for instance, in reporting sports or stock-exchange quotations. It will be noted, however, that no large business newspaper has attacked the capitalist system itself. It would indeed be strange if it did, for almost all the newspapers of the country are capitalistically owned. They are run for profit. Because it is more economical to run a chain than to run independent newspapers, about one-fourth of the total daily newspaper circulation is in the eleven largest chains.<sup>6</sup>

#### MONOPOLY

Since 1921 there has been a definite decline in the number of morning and evening newspapers. From the beginning of 1921 to the end of 1931 there was a loss of 105 papers. There has been a steady increase in the number of cities having only one daily

newspaper. In 1900 there were 353; in 1910, 504; in 1920, 686; while by 1930 there were 913.<sup>7</sup>

Willard Grosvenor Bleyer of Wisconsin University made an investigation of the extent to which there is monopoly control by one owner of all the papers in individual cities in America.<sup>8</sup> He found that in cities under 10,000 population there were 630 with daily papers, but in all but forty-one of these there was only one independent paper. This means that in 93 per cent of these cities one company had a monopoly of the press.

There were 427 cities of from 10,000 to 25,000 population, but only fifty-three of them had more than one independent paper. In this group, therefore a monopoly existed in the case of 87 per cent.

In the 160 cities of from 25,000 to 50,000 population there were only thirty-four which had more than one independent daily. In other words, monopoly control existed in the case of 78 per cent.

In the sixty cities of from 50,000 to 75,000 population there were only twenty which had more than one independent paper. In other words, there was monopoly control for 66 per cent.

In the twenty-eight cities between 75,000 and 100,000 population there were only fifteen which had more than one independent paper; therefore there was monopoly control for 46 per cent.

Taking all the cities, 1,305 in number, under 100,000 population, there are only 163 which have more than one independent daily. There is, therefore, a monopoly control for 87 per cent of all this number.

Professor Bleyer did not give the figures for cities over 100,000, but in such large cities as Charleston (South Carolina), Des Moines, Duluth, New Bedford (Massachusetts), New Haven, Springfield (Massachusetts) and Wilmington (Delaware), there is monopoly control by a single interest of all the daily papers.

Only a single morning paper is published in such large cities as Baltimore, Pittsburgh, Providence, Buffalo, Rochester, Syracuse, Cleveland, Cincinnati, Dayton, Columbus, Detroit, Indianapolis, Milwaukee, Minneapolis, Des Moines, Kansas City, St. Louis, Louisville, Memphis, Atlanta, Houston, Dallas, Fort Worth, Oklahoma City, Tulsa, Richmond (Virginia), Denver,



Portland (Oregon), and Seattle. Hence it is beyond dispute that the concentration of ownership in the newspaper field has gone far. Readers have little actual freedom of choice in 87 per cent of the cities under 100,000 population in the United States; for, as the study of the President's Research Committee on Social Trends reports, "A newspaper monopoly in a community does open the way to deliberate and conscious control looking toward the promotion of given economic or political ends."

#### OMISSIONS

In such an important educational center as New Haven both the morning and evening paper are controlled and owned by the same individual. The result is the prejudices of this owner may find expression in most powerful form through the press; even when the mayor is opposed to the policy of the newspaper owner he may hesitate to take action because of the fear of political difficulty in the next campaign. Actually in New Haven the press has refused to accept advertising given to it by the Federation of Churches. In this case the proposed advertising was to deal with the moving-picture situation. In another instance the press would not accept the paid advertising of one of the labor unions. In 1934 there was a still more glaring instance. Because of the repeated violation of the code for the cleaners and dyers by the large interstate chain of Goodwork and Bob's stores, the federal government removed the blue eagle. The government then sent out the following telegram:

BLUE EAGLES ORDERED REMOVED BOTH GOODWORK AND BOB'S STORES AND  
CASES IN HANDS FEDERAL TRADE COMMISSION POSTMASTER HAS BEEN  
INSTRUCTED TO SEE THAT ALL EAGLES TAKEN DOWN

This should have been news and headline news, for it was the first instance of the removal of the blue eagle in the city, but the newspapers refused to print a line about the matter. Even when the Religion and Labor Foundation warned them that if they did not publish this news letters would be sent to all the churches apprising them of the facts and the refusal of the press to give the matter publicity, it did not change the decision. It must be

remembered that this particular chain store paid for considerable advertising in the papers.

What has happened in New Haven may not be worse than in any of the other hundreds of cities where there is monopoly control, but it is especially interesting because it is the seat of a great university. It is precisely the type of action which is unpreventable under a capitalistic economy as long as we permit monopoly.

The situation is just as bad in the cities and towns of 15,000 population or less and it is growing worse. In 1900, 66 per cent of these places had but a single weekly newspaper, but by 1930 this percentage had increased to 86.5 per cent. This means that so far as newspapers in the locality were concerned a monopoly condition existed in 7,172 places.<sup>9</sup>

Psychology tells us that we are largely shaped by suggestion. The popular saying, modified as follows, would be largely true: "Tell me what you read and I will tell you what you are." For the average American citizen is tremendously affected by what he sees in the newspaper. The mass of readers have had little training in the art of critical appraisal of what they read. The newspapers use mass suggestion together with constant reiteration and emotional flare appeals, all tending in the same direction. There is a cumulative effect, as shown in the attitudes which the public finally accepts with little question. The most influential inculcations of the American press relate to nationalism on the one hand and acceptance of materialism and capitalism on the other.

#### COMPARISONS

Any unprejudiced study of the American press must recognize that it is carried on for private profit. Newspapers are merchandise to be sold for the maximum possible profit. Inevitably there is a tendency to cater to the largest number of people. It is for this reason that the tabloids have quickly secured such enormous circulation. The reader can take in ideas by seeing pictures rather than by reading, which takes some effort.

The *Christian Science Monitor* once made a study of the rela-

tive amount of space devoted to a prize fight and to the meetings of the National Education Association and the World Conference on Education which were going on at the same time. Of course, the nonprofit-motivated *Monitor* gave the most space to education, 267 inches, and nothing to the prize fight. The Boston *Post* gave 398 inches to the prize fight, and the *New York Times* gave 340 inches. In Chicago the educational conferences received less than two inches in the aggregate, while the prize fight had 1,353 inches. The New York papers gave fourteen times as much space to the prize fight; Philadelphia did not mention the educational conferences; while in Washington, D. C., the ratio was 50 to 1 in favor of the prize fight.<sup>10</sup>

#### COMMISSIONS

It must be recognized that the press is controlled by the large propertied class. This group is definitely committed to capitalism, the profit motive, and private property rights. Of necessity this class does not wish to have the newspapers support policies which run diametrically counter to the policies and mores of the owners. This is not apparent in a casual reading of the press. It is clearly demonstrable if we take certain great controversial issues. During the war the press as a whole retailed propaganda stories about Germany. Following the war the press as a whole engaged in national propaganda against Russia. Since the Bolsheviks assumed power we have given them and their political theories more free advertising than any other political party probably ever received in a similar space of time. Yet for the first decade of the existence of the Soviet Republic, until we gradually became convinced that the Soviet Union would not be overthrown, the American press treated the subject largely by rumor, denunciations and invective. Dr. E. A. Ross, in his book on "The Russian Soviet Republic," records in a chapter on The Poison Gas Attack some of what he calls "the freshet of lies" which were retailed by the press from the Atlantic to the Pacific.

Walter Lippmann and Charles Merz worked out a method of comparing the newspaper account of an event with what actually occurred. They then studied 1,000 issues of the *New*

*York Times* from March, 1917, to 1920. Their conclusion was that "the net effect [of the news items on Russia] was almost always misleading. . . . A great people in a supreme crisis could not secure the minimum of necessary information on a supremely important event."<sup>11</sup> They also were convinced that certain of the correspondents "are totally untrustworthy because their sympathies are too deeply engaged." They further found, "The Russian policy of the *Times* profoundly and crassly influenced their news columns."

Professor F. L. Schuman of Chicago University, in an analysis of the Chicago *Tribune*, lists the following headlines:

- Soviets fight famine as grain myth explodes (October 26, 1925).
- Claim starving poor threaten doom of Soviet (June 15, 1925).
- Russians free! to rob, starve, murder, and die (November 15, 1925).
- Siberia tries to shake off Moscow's yoke (November 26, 1925).
- Russia unloads jewels to save Soviet régime (February 10, 1926).
- Secret report shows Russia near collapse (March 20, 1926).
- Uncover secret terrorist plot to seize Russia (July 30, 1926).
- Rumania hears of widespread Russian revolt (August 7, 1926).
- Odessa troops mutiny against Moscow régime (August 9, 1926).
- Soviet party in chaos as trade, industry totter (August 4, 1926).
- Russia ferments as Red factions grasp for power (August 10, 1926).
- Reds reinforce Kremlin fort as mutiny grows (August 13, 1926).
- Economy régime in Russia fails; crisis impends (August 21, 1926).
- Reports revolt against Soviet begins in Russia (April 9, 1927).
- Red army fights with South Russians (April 19, 1927).
- Russia calls soldiers home as revolt rises (April 21, 1927).
- Famine strikes Russia; Poland fears invasion (July 27, 1927).
- Moscow traps cash of foreign business firms (October 16, 1927).
- Industry faces swift disaster in Red Russia (October 23, 1927).
- Trotsky's clan fights Soviet police; 18 die (Nov. 23, 1927).
- Hundreds die in Ukraine riots, Rumania hears (Nov. 26, 1927).

Dr. Schuman concludes his study by saying:

No inquiry into the factual basis of these news items would seem to be required. Suffice it to say that all of the reports of mutinies, revolts, and uprisings were wholly without foundation, so far as the writer has been able to ascertain, and that the remaining headlines differed only in

the degree of their inaccuracy. The total picture presented is completely at variance with the facts and is obviously calculated to discredit the Soviet régime.

#### FACT OR FABLE

Another valuable study of the press during the 1919 steel strike was made under the auspices of the Inter-Church World Movement. Four hundred issues of the seven daily papers of Pittsburgh were analyzed as they appeared during the first two months of the strike (September 22 to late November, 1919). In all these issues only a single instance was found of first-hand independent investigation of the facts by the press.

The study concludes that the Pittsburgh newspapers "not only published grossly inaccurate underestimates of the number of men on strike, but gave no informing account of the conditions responsible for such a protest."<sup>12</sup>

During the presidential election of 1924 E. F. Meyer of Colorado College made a study of newspaper reports of political speeches. He found the following errors: rationalization, personification, confusion of issues, stereotyping, and oversimplification.<sup>13</sup>

It would seem reasonably clear that on great social issues which challenge the entire capitalistic system, such as the Russian Revolution, especially in a period of crisis, the capitalistic press is not dependable. It would seem also to be true that in a strike situation the local papers cannot be trusted to report the matter impartially.

In the case of wealthy individuals a story may be suppressed for some time. For instance, Andrew Mellon filed suit for divorce against his wife on September 15, 1910. He succeeded in keeping the matter out of the press for seven months. Not a word appeared in the Pittsburgh press. "All developments, including the installation of \$32,000 worth of acoustophones to overhear Mrs. Mellon's conversations with her attorneys and others were carefully filed in the publishers' private morgues."<sup>14</sup>

#### BLACKMAIL

Shortly after the Teapot Dome was leased through the aid of bribery and other fraudulent means, the *Denver Post* sent a

reporter to investigate the lease and also the finances of Secretary Albert B. Fall. As a result it printed some sensational articles, cartoons and attacks. These suddenly ceased. It later was shown that Lee Stock had instigated the attacks in the *Post* and had also filed a suit against Sinclair without filing a complaint. Sinclair finally paid \$250,000 and agreed to pay an additional \$750,000, whereupon the newspaper attacks suddenly stopped.<sup>15</sup>

#### SABOTAGE

Collectively, the daily and periodical press apparently boast of their reactionary activities in behalf of the vested interests. At any rate, in 1934 the National Publishers' Association said:

This has been a most unusual year in the publishing field and the National Publishers' Association has due cause to be proud of its operations during this year in the interests of the entire publishing industry.

*Wagner Labor Bill.* This legislation would have been very costly to all publishers whether or not they operate their own printing plant. We took a very active part in killing this legislation.

*Tugwell Pure Food and Drug Bill.* As originally proposed, this legislation would have been a serious blow to all advertising. Your committee and executives were finally successful in modifying this legislation.

*Unemployment Insurance.* This bill provided for a tax of 5 per cent on all payrolls. Its seriousness speaks for itself, and your representatives aided in preventing its passage.<sup>16</sup>

The Associated Press cannot of course eliminate bias from its reports in cases where great prejudice exists, especially situations where capitalism, private property and the profit motivation are involved. Yet a dispatch from the Associated Press may be printed some 15,000,000 times and be read by even more million persons. The Associated Press is freighted with great public responsibility, yet it is largely controlled by the great city newspapers. It would be too much to expect it not to reflect the color of the capitalistic culture in which it is immersed. As far back as 1913 Max Eastman was arrested for criminal libel against the Associated Press. The grand jury indicted him, charging him with saying:

Meaning and intending thereby that the said corporation [the Associated Press] intentionally withheld, suppressed and concealed from its members information of important news and intelligence and intentionally supplied its members with information that was untruthful, biased, inaccurate and incomplete, and that the said corporation *for and in consideration of moneys paid to it* intentionally supplied to its members misinformation concerning happenings and events that constituted the news and intelligence of the day.<sup>17</sup>

But the case never came to trial. Perhaps the Associated Press did not care to face a trial of these charges in the open.

### PIECES OF SILVER

Of necessity the advertisers must exert great power on the newspapers. The expenditure for national periodical and newspaper advertising is enormous and runs as follows:<sup>18</sup>

Year	Periodical	Newspapers in advertising lineage
1928	\$185,205,000	\$1,802,481,742
1929	203,776,000	1,897,213,018
1930	201,885,000	1,654,246,249
1931	166,556,000	1,464,867,677

Advertising space in the daily newspapers has been growing. In the 1860's it was only roughly one-third of the total; in 1933, according to *Editor and Publisher*, it was 48.6 per cent of all; periodicals had 31.5 per cent; radio, 10.7 per cent; car cards, 1.2 per cent; and outdoor advertising, 8 per cent.<sup>19</sup>

Today about three-fourths of newspaper income comes from advertising and only one-fourth from circulation. The share of periodical income which comes from advertising has increased from about 50 per cent in 1909 to 64 per cent in 1927. In the latter year, out of roughly \$977,000,000 of total revenue of American newspapers, \$724,000,000 was secured from advertising.<sup>20</sup>

It is inevitable that the press must be subservient to advertisers to a considerable extent. Hart, Kingsbury, and Rowe made a study of newspaper ethics in advertising questionable and injurious food and drugs.<sup>21</sup> They found that only eight newspapers

had no advertisements of this kind and one of these was a nonprofit paper, the *Christian Science Monitor*; another was the *United States Daily* which has since suspended daily publication. Among the worst offenders were such well-known papers as the *Atlanta Constitution*, the *Baltimore Sun*, the *Cleveland Plain Dealer*, and the *Springfield Republican*.

Dr. Willard J. Stone, in the *Journal of the American Medical Association*, refers to the advertising of frauds by newspapers and calls attention to the publisher of the *Los Angeles Times*, who was president of the American Newspaper Association.

He is known as a public-spirited citizen and is one of the trustees of Stanford University. An interesting dual spectacle presents itself: As trustee he must be officially interested in the high standards of medical education maintained by the medical school of that university. As newspaper publisher he chooses to forget his university interests and fosters the propaganda of quacks.<sup>22</sup>

Thus do capitalism and the profit motivation corrode the actions of a trustee of Stanford and a president of the American Newspaper Association. No wonder that the press has been too optimistic all through the depression. Advertisers must encourage the optimistic spirit which induces spending.

T. Swann Harding places his finger on two of the major difficulties with present-day journalism. "One undoubtedly is the fact that profits can easily be extracted both directly and indirectly from the very grossest frauds. The other is the narrowly specialized education demanded by the masters of the profit economy system."<sup>23</sup>

#### POLLYANNA

One of the experts who contributed a chapter to the President's Research Committee Report on "Recent Social Trends," Hornell Hart, recently made a study regarding the treatment of the depression by a group of periodicals with a large circulation and a group with a lesser circulation. The former were all capitalistically controlled journals: *The Literary Digest*, *The Saturday Evening Post*, *Collier's*, *The American*, *The Ladies Home Journal*, *Good Housekeeping*, and *The Woman's Home Companion*. The



latter group were all nonprofit magazines and embraced *The Survey*, *The Nation*, *The New Republic*, and *The Christian Century*.

It cannot be proved that the comparative differences are due to the presence or absence of the profit motive, but the results are at least suggestive. The capitalistic group had some 17 per cent of their reading matter in the form of popular optimistic campaign material against the depression. The nonprofit group only devoted 1 per cent of their space to such an emphasis.

Dr. Hart listed material which fell under the following broad category. "Business conditions are sound, prosperity has no bad aspects, good times are ahead, be optimistic and not cautious, have courage, psychologic factors are important."

From January to October, 1929, the profit group had 31.7 per cent of material favorable to these sentiments and only 13.9 unfavorable. During the same period the nonprofit group had more unfavorable material than they had favorable.

From January to March, 1932, long after the depression had descended upon the country, the profit group of periodicals were still publishing 16.4 per cent material favorable to the inclusive optimistic categories and only 12.8 per cent of unfavorable material. The nonprofit periodicals, on the other hand, were publishing over three times as much unfavorable as favorable material. The above results speak for themselves.<sup>24</sup>

Dr. Kingsbury, director of social economy and social research at Bryn Mawr, confirmed these findings to some degree in a survey of newspapers to find out which had the most "international socialization." Two nonprofit papers came first: *The Christian Science Monitor* with a score of 30 and the *New York Daily Worker* with 26.1. The first profit-motivated paper, the *Minneapolis Journal*, had only a score of 20.6. Again it cannot be proved that this difference is due to the profit motive, but it is nevertheless worth noting.<sup>25</sup>

#### SILENCE GIVES CONSENT

Another survey of *The Ladies Home Journal*, *The Woman's Home Companion*, *The Delineator*, *The Pictorial Review*, and

*McCall's*, over a six-month period in 1933, revealed not a single major article "on power control, immigration, farm problems, economic planning, child welfare, education, the labor movement, taxation or international affairs. Peace and governmental economy were honored with one article each."<sup>6</sup>

Editors of several newspapers frankly stated to the author, although they insisted their names should be kept strictly confidential, that it was impossible for the newspaper to print material which was hostile to large advertisers. One of the nationally known women's magazines, after accepting a scientific article which urged breast feeding for babies, finally removed the article after setting it in type because of the fear that it would conflict with the large advertisements they were publishing urging the use of canned milk in infant feeding. More recently *Time*, the national weekly, has refused to accept paid advertising from Consumers' Research, a nonprofit agency which is trying to protect the public from fraudulent and injurious products. The excuse the editor gives is that the advertising department is completely separated from the news department in *Time*. It therefore has the right to refuse or accept any advertisement it pleases.

In the light of all this it is small wonder that Professor E. A. Ross of Wisconsin calls the metropolitan dailies "our reptile press." So notorious has been the profit interest of the press that in certain localities the public is no longer entirely subservient to newspaper campaigns. Great cities have elected mayors in spite of the opposition of practically every newspaper. Let us analyze some of the basic reasons for the failures of the press.

#### AT BEST

First of all, there is an inevitable weakness in the organization of the sensation and perception mechanisms of every individual. "The pictures in our heads" never correspond exactly to the actual scene. At an international congress of psychologists a fake murder was staged. Forty distinguished psychologists wrote careful accounts of the incident, yet only one had the important facts correct and of the others ten were totally wrong.

## TRANSMISSION TWISTS

Newspaper reports are still more liable to error because of the inherent nature of their selection. News is seldom secured at first hand. The reporter almost never witnesses the riot, the scandal, or the international revolution. A story may have passed through four or five hands before reaching the reporter, with the same exaggerated result which always attends the broadcasting of gossip. Not only does the reporter secure secondhand facts; they are frequently dressed up by others before printing. If an American reporter in a Riga café secures the latest "atrocities" story regarding the Bolsheviks, he must cable the gist of it to the Associated Press. But cables are expensive, so the story is whittled down to the raw bone for the wires. Later the item is expanded on the American side by the Associated Press; in turn it must be telegraphed broadcast throughout America, and each local newspaper from New York to California will want to make it seem original or exclusive. Inevitably it will be watered and flavored by the local editor. After all, the newspapers are commercial ventures run primarily for profit. By the time an item is dished up so as to make the maximum appeal to a fickle consumer it may seem totally foreign to its original author. A prominent reporter in Russia has stated that he used to compare his cabled stories with the printed newspaper versions which he saw two months later and found them almost unrecognizable. Yet in many cases there was no intention to deceive, only to make a good story. This same reporter said, "I frequently send out rumors about the accuracy of which I have not the slightest evidence, but then I am perfectly sure that no one in America will be any the wiser."

## ACTUALITIES

In 1933 in New Haven the American Federation of Teachers arranged a large meeting at which Professor John Dewey was the guest speaker. In the course of his remarks he urged the teachers to organize and affiliate with the Federation of Teachers and so protect their salary scale. It so happened that the owner

of the local press was strongly in favor of reducing the teachers' salaries. The newspaper reporter was forced, because of censorship, to write three successive accounts of this meeting, and finally apologized for what actually was printed. Doubtless, more truth is printed under capitalism than the prejudice of the owner might approve, simply because of the intelligence and honesty of his reporters who do not share his bias.

Most of the editors of the largest newspapers, however, do not have to cater to the capitalistic sympathies of advertisers because they are in hearty sympathy with them and are firm supporters of the profit system. Even such a mild suggestion for change as that offered by a committee headed by Dr. Ray Lyman Wilbur (a Republican secretary of the interior) for the partial socialization of medicine met with vigorous attack by the editor of the *New York Herald Tribune*, who reiterated the ridiculous charge that it would involve "medical soviets."<sup>27</sup>

#### ANGLES

Even if the news mechanism were absolutely free from bias or special interest, we should still be far from securing the unadulterated facts. Many events are surcharged with great popular emotion and are the center of bitter conflict. Such was the case in the railroad and steel strikes, the oil investigation, and the Bolshevik accession to power in Russia. It is extremely rare that an individual concerned with news gathering can divest himself of his social, political, and class bias. Unconsciously, his particular social environment, his specific personal background, will warp his attention to a particular set of facts. For example, two correspondents entering Russia at the same time in 1922 and visiting about the same places reached two diametrically different conclusions. One saw the paralysis of Russian industry, the terrible death crop of the famine, and the "widespread speculation"; the other told of the education of the workers, the "heroic" fight against starvation, and the "admirable" raids against speculators. The prejudices of the reporter naturally color his news—but suppose that others have a similar bias! In that case, the additions, the subtractions, and the refinements of

a certain news item will, all along the line, warp it still further from the truth. For instance, an emigré from Russia hears that there is a plot to arrest Lenin on a certain date. Arriving in Poland he embellishes the tale by stating, "Lenin has been arrested by Trotsky; Moscow is in chaos." This story is handed to an American reporter by the Poles with the addition that the troops of Yudenitch are nearing Leningrad. Sent as a compact cable message it is slightly altered to convey the impression that Leningrad has probably fallen. An optimistic editor, convinced that the Bolsheviks are of the devil and desiring to get ahead of his professional colleagues, headlines his paper, "Leningrad Officially Reported Taken"; another says, "Lenin Arrested and Shot." Yet the entire story originated from a political plotter in Moscow, whose dreams never had a chance of becoming reality.

Similarly, a distinguished American writer has stated recently that even now we are not getting the full facts about the evils of capitalism. Either editors are "violently prejudiced" or they feel it is necessary to warp their stories to "please the owner." A similar process happens to American news—in time of strike, for instance. Some papers are apt to become consciously or unconsciously anti-union and pro-corporation.

An interesting instance of this occurred in the summer of 1934 during the truck drivers' strike in Minnesota. After the shooting of some of the strikers the governor of the state reported:

An official investigation of the medical reports as to those treated or confined in hospitals as the result of the shooting by the police last Friday reveals that out of 45 persons shot at least 40 were shot in the back and that some were shot as far as three blocks away from the scene of the original disturbance.<sup>28</sup>

The workers accepted and the employers refused the settlement as proposed by the National Labor Relations Board and the United States department of labor. The governor consequently declared martial law and stated that "the responsibility for what occurs if the strike continues" would rest entirely upon the employers in the Citizens' Alliance.

The Chicago *Tribune* then wrote a long editorial headed, "Meet

An American Dictator" and charged the governor with "Hitlerizing the state." The closing sentence was "How far is the United States today from Rome, Berlin, or Moscow?"<sup>20</sup>

The problem of propaganda or the conscious effort to "put across" a particular program is one of the worst enemies of truth. For a concrete instance of this one has only to recall the almost incredible campaign which the majority of the press indulged in to discredit Senator Walsh and other distinguished senators who were disclosing corruption during the Harding régime. The average reader was made to feel that the real villains were the senators who were engaged in "slinging mud" at patriotic and able oil magnates. As a result Senator Walsh, one of the most active members on the committee, was flooded with anonymous letters, and the press by innuendo and inference attacked him all over the country.

Unless one knows the inside facts concerning a newspaper it is impossible to judge how far the ownership of the paper is reflected in the news policy or how far it is subservient to the financial interests. The honest student of our press is aware, however, that huge propaganda campaigns have been carried on.

A recent instance of how partisan bias, desire for sensationalism, and possibly deliberate propaganda unite to warp the news is given by the Chicago press. The Epworth League of the First Methodist Episcopal Church of Evanston held a meeting to discuss "The German Youth Movement" at which a conscientious objector who had served time in Leavenworth during the war was one of the speakers. At the conclusion of the meeting an American Legion member made a reply but there was no riot or revolutionary remarks. The next day the Chicago press carried the following headlines: "Hiss Flag in Evanston Church," "Pacifist Gibes at U. S. Cause Wild Sabbath Service Scene." "Near-riot as Allison Talks at Evanston: War Heroes Booed." In this case, as in many others, the bias of nationalism came in to warp the real facts. In everything having to do with international relations this is a constant source of trouble.

## PROPAGANDA

Besides all that has been mentioned there is another very powerful influence on our news—the press agent or, as he prefers to be called, the public relations counsel. The press agent is hired to manufacture public opinion, usually in order to “sell” some article, idea, political candidate, or corporation. A recent treatise on his work tells us that he is not called upon to judge the merits of his case any more than a lawyer is called upon to judge his client’s case. As Ivy Lee (the Rockefeller publicity man) said, “He is marshalling the evidence for his side.”<sup>30</sup> In the summer of 1934 it was proved that when Hitler came to power in Germany the Interessen Gemeinschaft Farbenindustrie, the German dye trust, paid Ivy Lee \$25,000 a year. His son, who graduated from Princeton in 1929, was getting \$33,000 a year as contact man in Germany.<sup>31</sup> Frank I. Cobb, the distinguished editor, has told us:

Shortly before the war the newspapers of New York took a census of the press agents who were regularly employed and regularly accredited, and found that there were about 1,200 of them.

How many there are now I do not pretend to know, but what I do know is that many of the direct channels to news have been closed and the information for the public is first filtered through publicity agents.

The great corporations have them, the banks have them, the railroads have them, all the organizations of business and of social and political activity have them and they are the media through which news comes. Even statesmen have them.

Silas Bent reports 5,000 publicity agencies and individuals in New York City alone, while in Washington there are 2,000. Stanley Walker, one of the editors of the New York *Herald Tribune*, reported that 60 per cent of the local news items in a single newspaper were “rewritten or pasted up” from the material emanating from press agents. Silas Bent analyzed one issue of the *New York Times* and reports 82 items which did not come from publicity agencies, 147 which were from such sources, and 26 which were doubtful.<sup>32</sup>

Bent lists thirty-nine publicity campaigns which secured ostensibly free "news" material in the press for a price. Among these were:

Vitamines (on behalf of a yeast manufacturer).

Window glass which admits the violet rays.

The propaganda against self-rising flour (denounced by the Federal Trade Commission as the work of a baking powder manufacturer).

Syndicated articles on the care of the teeth (the dental association paid for these, although they refuse to tolerate advertising).<sup>33</sup>

The publicity agent can frequently make a profound difference in the attitude of the public. George G. Hill, a former newspaper man, was hired to give out publicity for the defense in the Fall-Doheny trial. He succeeded in explaining away beautifully the statement by Mr. Doheny that he expected to make a profit of \$100,000,000 from his oil leases. In the case of John D. Rockefeller the efforts of the late Ivy Lee, his publicity agent, have almost transformed the attitude of the public.

#### RABBLE ROUSING

It is probably true that even today the press, if it is sufficiently united, can force major changes in American policy. Hearst's dramatic cable to his representative in Havana, who wanted to return home because "there will be no war," still needs to be remembered. It read, "You furnish the pictures and I'll furnish the war." The war came. Even today the press can inflame the populace against a foreign country rather quickly, especially if it has some dramatic and explosive event to build on. Bent says, "There is a mass of material at hand to show the usefulness of the press in spreading false propaganda about atrocities, in order to keep blood lust at the proper temperature."<sup>34</sup>

It is obvious that the aggregate effect of this is almost incalculable. In a recent textbook Professor J. O. Hertzler gives the following summary analysis of the difficulties with the American press as a factor in the formation of public opinion.



1. Distortion, coloring, exaggeration and suppression of news.
2. Propaganda—"The propaganda of the press is the most dangerous kind; it is the covert, unproclaiming type."
3. Sensationalism, muck and sports.
4. Syndicated and standardized news and editorials.
5. Concentration of ownership.<sup>35</sup>

In a democracy a well-informed public opinion is vital to political health. The poisoning of the news is as dangerous as tainted milk or typhoid water. Americans may well be concerned about present tendencies. Nevertheless, it is a testimonial to the editors that in spite of being run for profit some of the press is as fair as it is. A study of 486 "enterprising" papers in forty-three states by T. F. Barnhardt in 1933 showed that while 361 coöperated with the merchants to stimulate trade and 207 gave aid to the banks, still there were forty which definitely sought to lower utility rates.<sup>36</sup> In spite of this the conclusion of Kingsbury and Hart after their searching study of the ethics of the American press is inescapable that the profit making function conflicted with the news function and with the public welfare.<sup>37</sup>

It would be an incalculable stimulus to the truth if in some way more newspapers could be propaganda-proof. It seems reasonable to conclude that this is impossible so long as the newspapers themselves are part of big business and capitalism. It is one of the first tenets of the scientific method that he who seeks for truth must not have a selfish profit stake in a particular outcome. Disinterestedness is important, but this is just what it is impossible to secure from a capitalistic press. Newspapers are business enterprises; the attitudes and patterns of thought of publishers are those of business men. Advertisers and publishers, both being business men, see eye to eye; hence the news is colored in the light of capitalistic values. May we not hope that some time society will "deprofitize" the newspapers and make them the servants of the truth rather than subservient slaves to profit?

## CHAPTER XVII

### A RADIO MONOPOLY

IF some politician could devise a magic scheme whereby at the press of a button he could simultaneously enter a million homes at any time of the day or night, he would go far toward ensuring his political mastery. But this is what the radio has done in enabling a single voice to enter 17,000,000 homes which are equipped with receiving sets. Yet we have permitted this incalculably valuable and powerful tool to fall into the hands of the power-trust group, which includes the radio trust.

The first station to broadcast regular programs was KDKA in Pittsburgh in 1920. Owen D. Young of the General Electric Company organized the National Broadcasting Company in 1927 and selected its president. He was, however, ordered by the United States Supreme Court either to give up his interest in the General Electric Company or that in the Radio Corporation of America. Merlin H. Aylesworth was selected as president of the National Broadcasting Company. He had previously helped to direct the notorious National Electric Light Association, whose activities the Federal Trade Commission had exposed to public view. In fact the Trade Commission found that this organization had taken part in a conspiracy to deceive the public through propaganda for the privately owned utilities.<sup>1</sup> The Columbia Broadcasting Company was started in 1927. It, together with the National Broadcasting Company, has built up an extensive system of chains over which the same program can be broadcast at any time. In 1935 the American Broadcasting System was just getting started with a growing number of stations.

## THE MONEY

All the commercial stations rest upon advertising revenue. On both chains the number of advertisers has increased each year. In 1927 the National Broadcasting Company received \$3,760,000 for broadcasting time. In 1928 it and the Columbia Broadcasting Company, which had in the interim been started, received over \$10,252,000. In 1929 they received \$18,729,000, while in 1930 they received over \$26,819,000. For the year 1934 revenue had grown to such an extent that the National Broadcasting Company alone received \$27,833,616, an increase of 740 per cent over 1927.

## THE POWER

In a democracy it is peculiarly important that the public should be informed; otherwise democracy itself is in danger. Whoever owns the agencies for the distribution of ideas is likely to control the people. Radio today ranks as perhaps the most important force for the dissemination of ideas in American life. What has been done with it?

The Federal Radio Commission has given 172 units to the National Broadcasting Company and 118.81 units to the Columbia Broadcasting System. This means that only 153.56 units were left for all other independent stations.<sup>2</sup>

At the same time the National Broadcasting stations have power in watts of 1,148,850, while the Columbia Broadcasting System has 461,950. All the other stations combined only have a power in watts of 396,865.<sup>3</sup> The domination of the radio by the two major chains is almost complete.

Some newspapers, including the *Chicago Daily News* and the *Christian Science Monitor*, tried to form a press wireless to send radio messages for press publication. However, the Radio Corporation of America took action against them as infringing on its profits.

The plain fact is that the radio is in the hands of capitalistic interests and tends toward monopoly control. Harold A. La Fount, one of the United States radio commissioners, says in an article defending our present radio, "Commercialism is the

heart of broadcasting in the United States. What has education contributed to radio? Not one thing. What has commercialism contributed? Everything! The lifeblood of the industry."<sup>4</sup>

#### THE MIND AND THE SPIRIT

No one disputes the fact that radio has its values, recreational, religious, political, and educational; without question it has contributed to the solidarity of the home. We all recognize its present value as a recreational agency and its contribution to the religious, the political, and the educational fields, including some fine musical programs. Yet we must judge radio by its total program and its potential possibilities as a cultural force rather than by a few of its best features. When this is done we at once recognize that radio in the United States has not measured up to its possibilities.

The director of the National Advisory Council on Radio in Education, Levering Tyson, summarizes this widespread consensus when he says in his official report, "If the American radio system continues as it has been going recently with commercialism rampant, nothing can save it."

The program director of the National Broadcasting Company has said:

In commercial programs the primary object is to bring to radio as many listeners as possible, the kind of listeners that will most benefit the particular product which is being promoted [sic]. . . . The chief consideration is will this program attract and interest the kind of people who will be influenced to buy the product?<sup>5</sup>

H. V. Kaltenborn, news editor of the Columbia Broadcasting System, says:

The chief reproach against American broadcasting as against the American press is that its dominant purpose is commercial. Just as most newspapers are published to make money for those who buy and sell advertising, most radio stations are operated to bring financial returns to those who buy and sell time. Radio stations do those things which help them to make money and leave undone whatever interferes with immediate business success.<sup>6</sup>

The result of this commercialized base is that the radio must cater to the widest possible audience in order to make the most effective possible use of its advertisers' time. Its interest is not in trying to elevate the public standards but solely in getting the maximum return for its advertisers. Dr. Lee De Forest, one of the pioneer inventors who made the radio possible, declares, "Nine-tenths of what one can hear is the continual dribble of second rate jazz, sickening crooning by degenerate sax players, interrupted by blatant sales talks."<sup>7</sup>

It is small wonder that religious and educational broadcasts have suffered severely. When the present radio law went into effect there were ninety-four educational institutions broadcasting. When these institutions were forced to compete with profit agencies for channel space the Federal Radio Commission tended to decide the matter in favor of the commercial stations. Columbia University and the University Extension of Massachusetts both gave up broadcasting because of these difficulties.

#### THE FEAST AND THE SCRAPS

The concrete obstacles in the way of educational broadcasts are clearly shown by the experience of the station of Connecticut State College at Storrs. For ten years the college operated a radio station in an effort to develop an educational service. Inadequate power and radio interference vitiated every attempt to develop the work. For ten years this station sought to secure the right to operate a more powerful station and one free from commercial interference. For ten years this college continued to broadcast programs into the whistle-ridden channels, vainly hoping that sometime provision would be made for state educational broadcasting needs. Finally, the interference from the commercial station CNRO during the night periods was so great that educational broadcasts could not be heard one mile from the transmitter. The absolute futility of sending out costly programs to batter weakly against an impregnable wall of interference made necessary the discontinuance of all evening educational programs. This is illustrative of what has been happening to educational stations all over the country.

No wonder that in 1935 less than 4 per cent of the total broadcasting channels were run by educational institutions. In 1925 110 educational institutions and fifty churches were operating broadcasting stations in the United States. Today the educational stations have but 9.61 units.\* Dr. R. B. Smith of the extension department of New York University began broadcasting in June, 1929. His time was finally reduced until he only received fifteen minutes at the Thursday lunch hour and fifteen minutes at the Friday dinner hour. Finally, the university dismissed the radio director and abandoned educational broadcasting entirely, declaring, "Commercialism is pushing educational broadcasting to the wall."

It is true that occasionally a first-class educational feature like the Damrosch symphony can be sold to a national advertiser, but it can be given to the public only so long as the advertiser cares to continue to pay the expense. Another example of the difficulty of operating an educational program effectively is given in Wisconsin. The University of Wisconsin operated WHA at Madison. The Wisconsin department of agriculture and markets had another station. They jointly proposed to the Radio Commission that they construct a single station to be operated so that it could be heard all over the state of Wisconsin, on a 900-kilocycle frequency. Their request was denied because if the state of Wisconsin operated one effective educational broadcasting station it might interfere with a commercial station in Buffalo. Station WSUI of the State University of Iowa was forced for a similar reason to content itself with a low power which could not reach a city 200 miles away. Station WCFL in Chicago, established by the Chicago Federation of Labor, was promised in December, 1921, by the Federal Radio Commission that it could build a 50,000-watt transmitter. Actually, however, it was never permitted to do so because of the opposition of commercial interests.<sup>9</sup>

Secretary of the Interior Wilbur in 1929 appointed the Advisory Council on Radio in Education. This committee found that between the educators and the commercial stations there was a general lack of coöperation. The educational institutions

usually received inferior positions in the broadcast spectrum and received shorter and shorter periods of time as the advertisers took more and more.

#### THE SHEEP AND THE GOATS

The committee found the commercial broadcasters had more money and better equipment but the educational institutions had far superior program talent. In a careful study published in the *Harvard Business Review* for April, 1932, J. M. Hering reported that the Federal Radio Commission considered stations which broadcast programs designed to serve particular groups, that is, religious, social welfare, etc., as propaganda stations. The Commission declared that if the question of licensing such stations were to be raised for the first time it would not grant them any clear channel; that in the case of stations which had been broadcasting prior to the federal act, it always tried to give preference to what it called the public service stations. By public service stations it meant the ones which were operated and financed by advertisers. Usually the religious stations were granted part-time assignments, inferior channels, or daylight assignments only. If it was contended that the religious and welfare stations operated on a nonprofit basis could also furnish entertainment, the Radio Commission replied, "Even if this were true, such stations are used for what is essentially a private purpose . . . and they have neither the financial resources nor the standing and popularity to obtain the best results."

J. M. Hering concludes, "As time went on the commercial stations received more and more of the desirable broadcasting assignments. Educational stations were forced out of night time operation into daylight hours when service areas were smaller and when people are mostly at work."

While educational stations found broadcasting difficult the chief problem of the commercial stations has been to settle their competing interests. For example, on April 12, 1929, the National Food Products Protective Committee filed a petition with the Radio Commission requesting the revocation of the

license of thirty-eight broadcasting stations on the ground that they were permitting the American Tobacco Company to conduct a campaign of advertising by means of "tainted testimonials." The Federal Commission renewed the license; the tobacco company changed its slogan so as not to antagonize the food group. It is not so clear that it changed its method of tainted testimonials.

### SPEAK NO EVIL

Naturally, since the primary purpose of radio operation is private profit, controversial material is not enthusiastically welcomed by the broadcasting companies. If the radio were operated as a nonprofit organization it would be quite possible for the American Medical Association to establish a nation-wide radio service in the interests of public health. It is hard to see how it would be given free time to do this now, for this would inevitably involve destroying the claims of toothpaste, antiseptic, cosmetic, and food advertisers who are now among the chief supporters of the radio in the United States.

The fundamental question for the people of any nation to ask is, "Who controls what is to go on the air and what motive decides competing claims for time?"

*In America control is almost completely in the hands of capitalists who are motivated chiefly by a desire for profits.* At present three types of programs go on the air. First comes the *commercial program*, selected and paid for by the advertiser. He sometimes pays a comedian \$5,000 for a single half hour.<sup>10</sup> Second, there is the *voluntary program* furnished by a church or some nonprofit agency. No money is usually available for this, not even traveling expenses. Finally, and perhaps most important of all since it consumes perhaps 55 per cent of the time, is the *sustaining program*. This is paid for by the broadcasting company to fill in time which they cannot sell. It is usually inferior stuff, turned out by factory methods.

The extent of the control in radio advertising should be noted. In the case of the press and the magazine the advertiser does not select the fiction and other reading matter; in the case of



the radio he actually selects and pays for the programs which he uses with his advertising.

Moreover, the radio broadcasting companies are pretty closely allied with the power interests, which means that they may have certain attitudes which they wish inculcated into the public mind. Joy Elmer Morgan, editor of the *Journal of the National Education Association* and chairman of the National Committee on Education by Radio, says, "There is a radio monopoly with roots in the power trust, with a direct personal interest running into billions of dollars for the suppression or distortion of important types of public information."<sup>11</sup>

This testimony is corroborated by Ira E. Robinson, formerly a member of the Federal Radio Commission.

Radio ought to be devoted largely, halfway anyway, to the purely educational uplift of the people. It is devoted today by certain large interests to educational purposes of questionable value—an educational view subtly in behalf of the public utilities of this country, a fixing of the minds of the boys and girls who are to be future citizens so that when there is an application for increase of rates for electricity and gas, they may not oppose too much. That is plain talk but I shall not retract it. General Electric, Westinghouse, and others are in a situation to do great service by radio, but they are in it for private gain, the enhancement of their own big interests.<sup>12</sup>

#### WINDOW DRESSING

In the early railroad era the corporations used to hand out free passes to all candidates for public office for the purpose of entrenching their favored position. In much the same way the radio monopoly hands out free time to religious, civic, and educational authorities. The commercial interests know that they are in a precarious position. The ease with which the new Communications Act was passed in 1934 proves that they must watch their step. By permitting Norman Thomas and other radicals to broadcast, they think they have an alibi to disprove their conservatism. They can thus deceive the public and delay reform.

It cannot be denied, however, that censorship exists. The American public may not realize the extent to which it is used.

Mr. Kaltenborn, editor for the Columbia Broadcasting System, says, for example:

President Merlin H. Aylesworth of the Radio Corporation is a veritable Merlin in the publicity game. Before assuming his present position he helped persuade the American public that government ownership and control of public utilities was of the devil and that all virtue and advantage lay with unchecked private exploitation. . . . Mr. Aylesworth is skillful in making it appear that radical speakers are not barred by the broadcasting company. His organization is extremely conservative, yet every now and then takes particular care to allot radio time to some well-behaved liberal or radical speaker like Norman Thomas and then advertises this concession widely and vigorously.<sup>13</sup>

One might have expected Mr. Kaltenborn, since he is himself a radio speaker, to have favored the Radio Corporation. But Mr. Kaltenborn was once injudicious enough to favor the recognition of Russia over the radio. At this time he was speaking for the Brooklyn *Eagle*. As a result the contract with the Brooklyn *Eagle* was unceremoniously terminated and he was thereafter barred from station WEAf.

The author was once talking with an official of the Columbia Broadcasting Company, who, in defending the material now being broadcast in spite of advertising and astrology, declared, "You complain about what is now on the air. You ought to know about the thousand of 'bad' things we keep off the air." When asked if a study of these could be made, the answer was, "It is impossible, as the Company would be accused of censorship."

#### DISTORTION IN CENSORSHIP

Many illustrations of censorship over the radio could be given. Not long ago Father Coughlin in Detroit bitterly attacked the Socialist Party. Norman Thomas and the Socialist Party tried to buy time on the radio to answer these attacks, only to be met by a contract stipulating that in his speech Mr. Thomas should make no reply to the statements of Father Coughlin. Humorously enough, Father Coughlin himself was later taken to task by the radio station, whereupon Norman Thomas pleaded

in his behalf. On one occasion Mr. De Valera, now head of the Irish government, was kept off the air by the General Electric station KAO in Denver. WEAf gave an invitation to Jed Harris, author of a noted antiwar play, to speak over the radio. Prior to his appearance, however, the American Legion is supposed to have objected. At any rate, he was finally barred. Hudson Maxim, opposing prohibition, was left speaking to a dead microphone. On the other hand, W. G. McAdoo, a dry advocate, was not permitted to speak over the National Broadcasting Company unless he submitted his manuscript in advance. Four stations in Los Angeles would not permit a discussion of home rule for India. A Smith College professor, who was speaking on the attitude of America toward the Near East, was ordered to change his speech or not deliver it. W. K. Henderson of Shreveport, Louisiana, attacked chain stores and was later denied the air. The pastor of Trinity Methodist Church, Robert B. Shuler, spoke over the radio against bootleggers, gamblers, politicians, the local board of health, bankers, and brokers. He was going to expose some political influence to aid defendants in cases pending in court, but was sentenced for contempt of court. The application of Trinity Methodist Church for a renewal of its broadcasting license was denied. Dr. Shuler carried his case to the circuit court of appeals but was denied the use of the air.<sup>14</sup> Most unorthodox political or economic views are barred, or permission to express them is only grudgingly given.

Devere Allen, speaking for the League for Industrial Democracy, was denied the right to broadcast over WGY at Schenectady because he severely criticized the public utilities, the banking interests, and the "Buy American" movement.<sup>15</sup>

Glen E. Hoover of Mills College, California, had a speech on Russia censored. He was not permitted to say, "The Russians plan and experiment while we drift and cling to tradition." Among other things eliminated was a statement in which he said that in Russia no food cards are given to "salesmen, criminals, advertising men, prostitutes, realtors, financial counselors, racketeers, priests, Christian Science practitioners, chiropractors, solicitors, osteopaths, herb doctors, or night club hostesses.

After formulating this list I am again impressed with the profound character of the Russian Revolution." <sup>16</sup>

The Reverend H. J. Hahn was told by WGR in Buffalo to keep to conventional religion. Later his sermons were taken off the air. Carroll L. Beedy attempted to speak in New York on the venality of the newspaper press and was cut off the air. No station in Los Angeles would sell time to John R. Haynes for a speech in favor of municipal ownership of public-utilities. <sup>15</sup>

A recent notorious instance of censorship was that of Professor William Z. Ripley of Harvard, president of the American Economic Association in 1933. He was scheduled to speak over the radio and to the National Association of Mutual Savings Banks in June, 1932. The National Broadcasting Company finally refused to broadcast his address. Professor Ripley said, "I have been asked to blue pencil my speech. I have never submitted to blue pencilling and will not begin now." Professor Ripley remained steadfast in his position, and his address on public-utility finance did not go on the air. The National Association of Broadcasters issued in 1933 a book of 191 pages of propaganda for commercial radio. It explained away the Ripley incident in the following words:

The truth of it is that Dr. Ripley was scheduled to speak at a convention of savings bank officials once and submitted a script, but the speeches before him on the program used all the available time, they never reaching him in the radio part of the program. There never was any censorship of his speech by the broadcasters at any time and had he been reached in the program, he would have delivered it as had been originally planned. <sup>17</sup>

After seeing this explanation Dr. Ripley wrote the author as follows:

I hope you will be able to rouse public feeling in the present broadcasting situation. Of course, as a commercial venture, the companies are not going to permit their client advertisers to be squarely discussed, as they should be in the public interest. That might spell loss of revenue from the host of quarter hours, etc.

Coming to the incident which you mention, the excerpt from their official volume is absolutely false in every particular. What happened was

that the Savings Bank people asked me to submit an abstract of my address for the press. Instead of this I gave them, in advance, the same material which was to come informally by word of mouth to them, in a practically identical text which was to appear shortly thereafter in the *Forum*. This copy they handed to the representative of the radio companies to look over before I spoke. He went through it with a blue pencil and struck out the name of every specific utility company which I cited, to give point to my warnings to the savings banks, as respected the soundness of some of their investments. The Insull companies, Cities Service, Associated Gas and Electric (now in the hands of banks which had peddled their securities)—these and others were frankly and openly discussed by me, as you will find from looking at the *Forum* article in question. I refused to omit these names in my address. The radio man said it could not be accepted therefore. That put it up to the savings bank people at once. Like little men, they hesitated not a moment, but told me to go ahead and give it to them in all its nakedness, which I did forthwith, although the program was halted some minutes while the matter was being settled. The address was delivered, was not broadcasted at all, and the incident was openly and editorially treated in the press at the time. An attempt to cover it up was made at the time, by some such excuse as this.

Even more recently Mr. Schlink, the director of Consumers' Research, was barred from the radio on a Columbia station. As publicity on this occasion became rather widespread, the president of the Columbia Broadcasting Company later permitted him to give his address; but even then WBT, a Columbia-owned station in North Carolina, went off the air soon after Mr. Schlink began to talk.

In 1934 the National Religion and Labor Foundation, a non-sectarian, nondenominational organization working for social justice, offered to pay for a series of ten addresses on religion in action. It agreed to mail letters at its own expense announcing the series to 120,000 religious leaders. The National Broadcasting Company stated that it gave time to the Catholics, Jews, and Protestants separately and never to religious organizations including all three. An official of the Columbia Broadcasting Company first promised to give time for the series and then later said it was impossible to find the time although he believed

the program was better than that which was being broadcast. The series covered such controversial issues as public ownership of utility companies and the control of the radio itself.

Naturally, when the chief criterion for operating radio stations is private profit the truth is a minor issue. An agreement was recently reached between two baseball clubs in Chicago and the city's principal broadcasting station. This agreement provides that in return for permission to broadcast accounts of the summer's baseball games the station shall offer five free periods of advertising on the days on which the games are scheduled, but in return it imposes a censorship of the contents of the broadcast. "All comment on the play by play, the weather conditions, decisions of umpire, fights, accidents, and anything that happens within the ball park shall be favorable. No negative comment, no criticism of players or officials, is to be permitted." <sup>18</sup>

In 1934 even the conservative *Herald Tribune* of New York published four articles charging that there is no such thing as freedom today on the radio. <sup>19</sup>

Late in 1934 General Butler was cut off the air in the middle of an address on the National Broadcasting Company network because of his references to "turning food into fertilizer" and "marines making whoopee in the red-light district."

The examples of censorship might be continued almost indefinitely, but perhaps enough have been given to show that censorship is present and is controlled by capitalistic interest.

#### IN GREAT BRITAIN

In Europe generally the radio has been made a public utility and is not operated for private profit. The contrast between the British system, for instance, where no advertising is permitted and where each radio user is taxed 10s. a year to pay for the programs, is quite marked as against the system in vogue in the United States. Various students of the two systems report differently on the merits of the programs broadcast. It should, of course, be recognized that it is hardly fair to compare a small country such as Great Britain with all the radio facilities of

as large a country as the United States. In spite of this fact there are many who feel that the content of the British system is better. Ben H. Haggin, American artist, after studying the English system, reports that there they try to educate the people to something better. The British Broadcasting Corporation keeps the master works of music and literature constantly before the public. It broadcasts several full-length symphony concerts and several complete operas each week. It even broadcasts programs which ordinary "sponsors" would find too expensive to give. Persons staying at home in the evening are always sure of two good hours of excellent music and there is always an alternative program. "By contrast in New York," says Mr. Haggin, "there are five evenings a week in which the National Broadcasting Company does not carry a note of the major works of the great composers. The Columbia Broadcasting System is only one evening better off. On three evenings a week there is nothing of outstanding importance in the musical line from all wave lengths combined; and there is only one full-length first-class symphony a week."<sup>20</sup>

There are many indications that the English system is preferable to that in the United States. A great deal of the material which we read about British broadcasting is propaganda. On a percentage basis the English radio appears to be vastly superior to our own. Sixty-two per cent of the national broadcasting in Great Britain is musical, and of this nearly 17 per cent is serious music; 22.8 per cent is educational; 4.7 per cent is devoted to religion; the children receive 5.2 per cent of good, wholesome material.<sup>21</sup> Contrast this with the programs in the United States. According to the Federal Radio Commission's report in 1932, of the total hours used by 582 stations only 12.5 per cent was used to broadcast educational programs. This is only a little over half as much as in Great Britain. Furthermore, it is exceedingly doubtful whether the content of what is called "educational" material in the United States would come up to that standard in Great Britain. For instance, an educational booklet mailed out as a matter of routine in England to the radio listeners contains forty-eight pages, with nineteen

pictures and twenty-eight charts, and is, of course, free. Nothing like it is used on such a wide scale in the United States. It is sometimes charged that controversial issues are barred from British programs. That this is false is conclusively shown in the January, 1934, issue of the *Listener*, published by the British Broadcasting Corporation. In 1933, for instance, controversial discussions took place covering fascism, communism, imperialism, Russia, Karl Marx, as well as debates on the drink question, betting, blood sports, the press, and the British educational system. At the height of the controversy over the Manchurian question British listeners heard on the same evening statements both of the Japanese and the Chinese points of view. During the autumn of 1933 eleven talks were broadcast as political issues by leaders of the government and the opposition. Each speaker was allowed to say whatever he pleased about the remarks of his opponent. While Great Britain is a country of developed capitalism—and as such its radio, even under government control, would of necessity not be unaffected by the economic order—it is at least clear that the public is saved the constant advertising bombardment which the American system injects into the homes of the people.

#### COFFEE CULTURE

Even when good advertising numbers are given to the American radio audience there is no assurance how long they will be maintained. In 1926 WBZ, in Springfield, broadcast once a week the Boston Symphony. This was done because a Boston coffee merchant felt it was good advertising. Two years later, however, he decided that something else would aid his merchandising better. The public no longer could listen to the Boston Symphony.

One constant criticism of the American system is the intrusion of radio advertisements every few minutes. What would the American public think if every fifteen minutes in grand opera a business man would appear on the stage and tell the merits of toothpaste, rouge, or some variety of canned goods?

It is not necessary to criticize or to blame the executives of



the various commercial radio corporations. Given the present system, they may be doing as well as could be expected, but that the one supreme end is profits should no longer be masked. From a sociological standpoint there is unanimity of opinion that the radio should be used widely to educate the American people. Indeed, adult education becomes almost unintelligible, even humorous, if the radio is omitted from consideration. It seems probable that the radio could be used with powerful effect in every high school and college in the country. It is scarcely possible that this will be done so long as the present system continues. Similarly, there is no question from the standpoint of religious education that the radio is one of the most important potential cultural agencies. But, on the whole, what is it now doing? It seems probable that, considering all the programs, it is actually promoting negative values.

#### THE CHILDREN'S HOUR

Children are told that when they drink Coco-Malt they are coöperating with Buck Rogers and his heroine Wilma. When they do not take this patented drink they belong to the Cane and Ardala Club, who are the villains of the thrilling radio tales. It is not a question of the quality of Coco-Malt but of the outrageous ethics of this advertising and its educational effect on the child. If it were possible to plan talks for the younger generation on an educational instead of a profit basis the dramatic adventures of historical figures in American life could be told—those which have really contributed something to the welfare of the nation and the world. Since, instead, desire for profits and sales is the chief drive, it tends to whet the appetite of the child mind for excitement. Children listen day after day to the same dubious adventures of Tom Mix and Bobby Benson, and anything more worthwhile seems drab by comparison. Cecil and Sally, Kate Smith, and similar inanities must drive off the air far more valuable educational broadcasts, all because they appeal to the lowest common denominator of the people. Jazz of a debased sort with "crooning"—which recently received the well-merited rebuke of Cardinal O'Connell—are

given almost unlimited time, while the more valuable educational broadcasts are barred or are restricted to unimportant hours.

#### THEY KNEW WHAT THEY WANTED

Now in answer to all this may be said, "Yes, but the American people are getting what they want." This answer is open to serious doubt. The scientific study by Professor Kirkpatrick showed a universal dislike of jazz. Fifty-one people tuned out in disgust on Edna Wallace Hopper. But even if the lowest mass of the people are satisfied, what of it? Should we not have at least proportional representation in radio programs? If the majority wish the air filled with jazz let them have it, but why not require that at least a stipulated part of the total desirable time shall be used by those who wish better educational material? \*

Furthermore, if we are going to base our radio programs on the demands of a majority of the American people, this involves a clear mandate to eliminate advertising. At present the ears of the American public have been literally flogged with sales talks of all kinds. It is hardly necessary to detail the exaggerated, even actually spurious claims which are constantly being made in advertising. It seems to be in the nature of profit enterprise to exaggerate. For instance, to cite one of the most commonplace, the \$1,000,000,000 Socony Vacuum Company advertises its oil over the radio in these words: "For the winter protection only Socony can give." It is, of course, palpably untrue that only Socony can give this protection, but the public is so used to almost every form of falsehood over the radio that this would probably pass unnoticed by the majority.

Instead of trying to eliminate spurious claims, why permit constant advertising interruptions at all? It is conceded on all sides that the public does not want it. If a device could be invented which would automatically silence the radio for the exact time that advertising is on the air, it would be used by almost all. It is unfortunate that the American mind, which is being bombarded on all sides by eye and ear stimuli of a commercial

nature, should now have to permit even the home to be invaded by sales talk for automobiles, cough remedies, chewing gum, dental pastes, gasoline, breakfast foods, fur coats, Crazy Water Crystals, cigars and cigarettes, and so on *ad infinitum*.

#### WHOSE AIR

It is questionable whether broadcasting, which potentially exerts such a tremendous influence on the public mind, should really be controlled by the profit motive at all. Why should broadcasting be a business any more than a public-school system is a business? We would not think of permitting advertisers to control our public school system, yet that is precisely what is happening in radio. It can hardly be claimed that our capitalistic system results in more people listening to the radio, for although Great Britain collects a license fee of 10s. a year on each receiving set, still 5,000,000 people were willing to pay this fee in 1932. This is nearly 11 per cent of the population. In Denmark 13.4 per cent of the people are licensed, while in the United States radios are owned by only 9.8 per cent of the population.<sup>22</sup> Sir Arthur Salter, contrasting the radio which is run on a nonprofit basis and the movies which are run for profit in England, says, "The first has utilized its opportunities worthily. The second, under uncontrolled private management, has outdone even the worst of the press in triviality."<sup>23</sup>

It can hardly be denied that both the radio and the press do exercise, to some degree, a censorship over the material they use or print. We have cited flagrant examples of this censorship in both fields. Even more important in its effect on the public mind is the fact that both institutions are operated and run for private profit first, last, and all the time. They are owned by individuals who believe in the capitalistic system. Editors and radio managers who are hired by owners naturally share in large measure the outlook of their superiors. Consequently, for the most part, there does not need to be censorship. The undertones and overtones of both the press and the radio make for support of the existing economic order. Indeed, it is rather surprising and a tribute to the complexity and idealism of human

nature that so much of the press is as independent and as critical as it is. Many of the best features of the press and of the radio exist because so many individuals are not dominated by profits. In other words, these features are in spite of capitalism and not because of it.

It may be true that on the whole in America, because of the complexity and the extent of the country, there is more political freedom on the radio than in some government-controlled stations in Europe. This does not, however, detract from the limitations we have sketched in this chapter, nor from the possibility that some better system might be devised. The post office, which is one of our major means of communication, might have been privately owned and operated. We have, however, been able to secure reasonably good service through government ownership, and the post office is as free as almost any institution in American life. Public libraries might and to some extent do exercise censorship in the selection of periodicals and books. It seems probable, however, that they are incomparably freer and serve the public interest more effectively than if they had been operated for private profit and charged each user the highest possible fee.

J. E. Morgan, the editor of the *Journal of the National Education Association*, summarizes the radio situation in these words:

There has not been in the entire history of the United States an example of mismanagement and lack of vision so colossal and far-reaching in its consequences as our turning of the radio channels almost exclusively into commercial hands. The mismanagement of the public domain out of which our western states were carved was bad enough, but we did have the vision to reserve certain sections for schools. Our failure to take possession of our mineral and oil resources for the common good has contributed to extensive waste of our natural resources and to excessive wealth on the one hand and to poverty on the other. The giving away of much of our water power—a resource almost as necessary during the years ahead as air—was even worse than our land policy or our squandering of mineral and oil resources. But all of these fade into insignificance when compared with the giving away of radio frequencies of untold value with no thought of compensation or no reservation, as in the case of the public domain, for the uses of education.

## SUMMARY

We can perhaps conclude that the following factors are inherent in the present system:

1. Control of programs by profit-motivated corporations and advertisers.
2. A deplorable lack of facilities controlled by federal and state authorities and by educational institutions.
3. An inordinate amount of advertising, interfering with cultural progress.
4. A domination by commercial programs of the best hours.
5. An inequitable distribution of radio favoring the large urban centers.
6. An absence of program planning, research, and educational work.
7. An utter lack of coördination between programs.
8. An attempt to cater to the largest possible audience rather than to advance standards and improve the quality of programs.
9. A real censorship of radio broadcasts.
10. Control by interlocking corporate groups who have a financial stake in dominating certain national policies.

Radio control today is in effect commercial monopoly, not so much because of unfair treatment of educational interests by the Federal Radio Commission as because the educational interests are not organized to carry on the costly warfare waged by the commercial interests. There is no hope for the small college station in a system where the criteria for fairness evolve from commercial competition. What hope is there for educational broadcasting as long as the phrase "public interest, convenience, and necessity" is interpreted as "commercial interest, convenience, and necessity"?

## CHAPTER XVIII

### A REFRACTED EDUCATION

THE American people have been taught to have faith in our public school system. Education has been the means of emancipating thousands of children from the class level of their parents. Capitalism has acquiesced in the establishment of our present public school system. To be sure, in the early days of our republic free public school education was vigorously opposed by the propertied interests.<sup>1</sup> The *Connecticut Courant* for July 16, 1830, for instance, declares that education is a matter solely to be left to the enterprise and competition of individuals." Nevertheless, in the end capitalism permitted the establishment of our public school system, until today some 30,000,000 pupils are enrolled. Capitalism has also participated in the establishment and the maintenance of the private institutions of higher learning in the United States. It must therefore be recognized that although capitalism at first opposed public free education, it later accepted it and in addition established and maintained institutions of higher learning.

The public schools are not profit enterprises and the contrast between what they give the people at a low cost and what a business enterprise would give is great. High tribute must be paid to the incalculable service which the public schools have rendered the nation. Yet even the schools cannot but be affected by the environment of capitalism in which they were born and grew up.

#### RETRENCHMENT—THE FOURTH R

At the present time capitalism has had a most unfortunate direct effect on the curtailment of public school education. In 1930 we were spending over \$2,300,000,000 for the maintenance

of these schools.<sup>2</sup> Now this has been drastically reduced. For instance, in Alabama the educational budget has been cut from \$17,000,000 to \$10,000,000; 145 schools have been closed completely. In Arkansas the budget was reduced from \$19,000,000 to \$9,500,000. In Michigan the reduction was from \$109,000,000 to \$49,000,000. How rapid has been the curtailment in our educational system due to the depression can be realized from the fact that up to November, 1932, only forty schools in the entire United States had been shut, but by the spring of 1934 over 20,000 schools have been closed for lack of funds.<sup>3</sup> Actually, in 1933, 100,000 more children than usual were denied all educational opportunity because of the closing of schools. Shortened terms resulted in 1,000,000 additional children receiving what the Bureau of Education of the United States called mental starvation. In a single year 25,000 teachers were dropped, while one out of every three teachers enrolled must work for less than the blanket-code minimum for unskilled labor. In normal years 1,650,000 children from six to thirteen are not in school; 521,000 children from fourteen to fifteen are not enrolled. Since an additional 100,000 in 1933 were denied educational opportunity, this means that over 2,250,000 children are being deprived of education at the present time.<sup>4</sup>

In addition, one out of every two cities has had to reduce or eliminate one or more of the services of the public school system, such as art, music, home economics, or health services. There has been a decrease of \$2,100,000 per day spent on education in the United States from 1930 to 1934. This represents a cut of about 20 per cent. The school funds in closed banks in one state alone totaled \$15,000,000. The disastrous consequences of the capitalistic depression are such that the citizen must choose between losing his home, his farm, or his school. Faced with such an alternative, the citizen usually acquiesces in the curtailment of educational activity.

#### BUSINESS PRESSURE

Although education is probably more needed at the present time than in eras of prosperity there are actually 200,000 teach-

ers who are unemployed.<sup>5</sup> In 1932 and 1933 some 5,680 dismissals of college teachers have taken place.<sup>6</sup> This curtailment of education in the United States has been carried on with the direct approval and pressure of the business interests. For instance, the United States Chamber of Commerce passed on to local chambers recommendations about decreasing school cost as follows:

1. Shorten the school day an hour.
2. Increase the size of classes.
3. Increase teaching hours.
4. Suspend all increases of salary.
5. Reduce salaries.
6. Shorten the school year.
7. Discontinue evening classes.
8. Discontinue kindergartens.
9. Reduce elementary school by one year.
10. Reduce the high school from 4 to 3 years.
11. Charge tuition for high school students.<sup>7</sup>

An official communication issued by one state chamber of commerce actually advocated the reduction of the school system to the status of 1870!<sup>8</sup>

The business interests have not hesitated to demand that the schools aid them in preparing students for their profit enterprises. For instance, in 1917 certain manufacturers went to Congress and asked that vocational courses in high school be introduced. They recognized that this would involve great expense. The United States Chamber of Commerce joined with the manufacturers in securing the passage of a bill providing that United States money should match the amount appropriated by the states for this service. In 1933, however, the United States Chamber of Commerce refused to take part in a conference on the crisis in education and representatives of the manufacturers who came as official delegates fought at every step for reduction in educational expenditures. These were the same interests who insisted so strenuously on the expansion of the educational program in 1917 to meet their economic interests.<sup>9</sup>

The organized bankers of the country for many long years



carried on a persistent campaign to extend school curricula to the teaching of thrift. The lawyers have for years urged the teaching of civics in the school. Yet Professor Judd says, "The lawyers are now getting themselves elected or appointed to school boards for the express purpose of enforcing the drastic retrenchments ordered by their clients."<sup>10</sup>

Mr. Charles B. Stillman, president of the Joint Conference of Teachers and Principals of Chicago, even goes so far as to charge that the big business interests have entered into a deliberate conspiracy to throttle public school education in the United States.<sup>11</sup>

### EQUALITY

The code of the educational system in a profit civilization is such that there can be no genuine equality of opportunity. Equal opportunity is largely a myth. The children of the rich can always go to school, but thousands of Negro children have no educational opportunity. Even when schools are available and education is free the children of the poor must be removed at the earliest possible moment in order to go to work. Free instruction alone is not enough to provide equality of opportunity. The children whose parents cannot support them outside of school have great difficulty in remaining in school. Furthermore, even the children who are able to go to the public school do not afterwards have an equal chance with the children who belong to the privileged classes.

In our universities it is only the exceptionally fortunate who are able to secure fellowships, and even a student at the top of his class who has no other means of support is heavily penalized. The president of Harvard University implies this when he says, "Today our fellowship and scholarship funds are woefully inadequate."<sup>12</sup> The health of the self-supporting college student is very definitely lower than that of the independent student. The number of clinic visits per 1,000 students is almost a third higher in the case of self-supporting students. The number of hospital days per 1,000 students is more than one-third greater in the case of self-supporting students, while in the case of

self-supporting women students the number of hospital days per 1,000 is approximately twice as great.<sup>13</sup> Professor Counts, in his study of "The Selective Character of American Education," concludes, "In a very large measure participation in the privileges of a secondary education is contingent on social and economic status."

#### ASSISTANCE

Not only have the financial classes curtailed education during the depression and prevented equality of educational opportunity, but they have from time to time attempted to control public education so as to aid their own profit enterprises. The example of the public utilities is striking. This was brought out in the hearings of the Federal Trade Commission. Very often propaganda in the schools was carried on with great skill by the power interests. The testimony before the Commission brought out that the power companies posted pictures or facts about the state, with their names attached, in schools, colleges, and universities. The purpose of this campaign was, as one of the officials of the power interest stated, that "the school children, constantly seeing the name of the company associated with facts about the state's greatness, [begin] to associate the company itself with the progress of the state."<sup>14</sup> Even in 1934 power propaganda was being posted weekly on the bulletin board of the public library of New Haven.

The power interests also had pamphlets written for school children, although the source of the authorship was usually disguised. For example, a "Connecticut Public Utilities Catechism," "for use in the secondary schools of Connecticut" was compiled and printed by "the Connecticut Committee on Public Service Information." This discusses electric light and power, gas, the telephone, the street railway, and water, in the order named. The pamphlet makes such grossly false and misleading statements as:

In every case in which a community has attempted to operate a public service industry which is subject to great changes and developments, like the above-mentioned services, it has been found that the costs of the

service are higher than when the service is furnished by a private corporation.

Such pamphlets were often sent, as in this case, to all the public schools of the state. They frequently had no reference to the public-utility system which was paying for their circulation. The Puget Sound Power Company paid a Mrs. Tripp to write a pamphlet which went, she estimated, to 75,000 high-school children. This pamphlet was endorsed by the state superintendents of schools in both Washington and Oregon.

#### INDEPENDENCE

As part of the campaign of the public utilities, even universities were subsidized. For instance Northwestern University received \$25,000 a year; Harvard Graduate School of Business Administration, \$30,000; the University of Michigan, \$16,000 in 1927 and roughly the same amount in 1928 for research work.<sup>15</sup> The University of Maryland received \$12,500. The utilities were instrumental in placing men on the faculties. As one of their executives testified, "We now have twenty-four public-utility-company executives as members of the university faculty."<sup>16</sup> In fact, they actually modified a university course.<sup>17</sup>

Some of the methods used can be seen from the following letter written to E. S. Belden, director of the United Power and Light Company in 1925, by Major Richardson, director of the Pennsylvania Public Service Information Committee.

I am enclosing outlines of the public utility course recently run in the University of Pennsylvania and Temple University. The plan was put across in the usual way. We laid the groundwork circumspectly and with care so that the actual suggestion that such courses be started came from the faculties of the institutions themselves. The rest was routine.<sup>18</sup>

Professor Grayson, who gave this course in the University of Pennsylvania, admitted that as an attorney he had for years "represented a considerable number of small New Jersey utilities," that he was treasurer of the New Jersey Utility Association, and that he received compensation from the utilities for lecturing against government ownership. Professor Miller, who conducted a public-utility course in another Pennsylvania insti-

tution, received from the public-utility officials fifteen pages of detailed criticisms of the way he conducted it. He put their criticisms and suggestions into effect.<sup>19</sup>

#### RESEARCH

The Puget Sound Power and Light Company offered to advance \$150,000 for investigating the municipal light plant in Seattle, believing that the investigation would disclose "damaging evidence to the cause of municipal ownership." Professor Du Vall of the University of Colorado was actually paid \$1,692 during the summer to make an investigation of municipally owned power plants in Colorado. The conclusions in his report were highly unfavorable to the municipal plants.<sup>20</sup>

Naturally, the public-utility interests did not contribute this money except as they believed it would be used in their interest. That it was bound to have effect in any case can be seen by the words of Donald K. David, assistant dean of the Harvard School of Business Administration, who said, in speaking to the National Electric Light Association after having received \$20,000 from them, "The Harvard Business School very gladly and very happily accepts its foster parentage." The Federal Trade Commission declares this a "natural statement" to make since the N. E. L. A. was under guarantee to pay them \$30,000 annually for the next three years.

M. H. Aylesworth, then managing director of the National Electric Light Association, later head of the National Broadcasting Company, in an address at the conference of Middle West Utilities in 1923, said:

I would advise any manager here who lives in a community where there is a college to get the professor of economics, let us say—the engineering professor will be interested anyway—interested in your problems. Have him lecture on your subject to his classes. Once in a while it will pay you to take such men and give them a retainer of one or two hundred dollars per year for the privilege of letting you study and consult with them. For how in heaven's name can we do anything in the schools of this country with the young people growing up, if we have not first sold the idea of education to the college professor?<sup>21</sup>

Dr. Charles A. Eaton, president of the American Educational Association, in his address to the National Electric Light Association in 1924, said:

What I would like to suggest to you intelligent gentlemen is that while you are dealing with the pupils, give a thought to the teachers, and when their vacation comes pay them a salary to come into your plants and into your factories and learn the public utility business at first hand, and then they will go back and you needn't fuss, they can teach better than you can.<sup>22</sup>

#### LABORATORY FACILITIES

This suggestion was followed by the utility interests, who proceeded to hire professors to work during their summer vacations. Dean C. O. Ruggles of Ohio State University (later promoted to the Harvard School of Business Administration) was paid \$15,000 and expenses for his services during a sabbatical year to work among the universities. Professor E. A. Stuart of the University of Minnesota was hired to make an "impartial" survey of rural electrification in Ontario. His conclusion was that the farmers would have been very much better off had the utilities been privately owned. Professor James Mavor of the University of Toronto was paid \$1,000 at the time his book against government ownership was being written, and the electric-light companies spent \$10,000 in distributing the book. Prof. Charles S. Scott, of Yale University, was on the N. E. L. A. payroll for \$5,000 a year.<sup>22a</sup>

#### COÖPERATION

Public Utilities also attempted to see to it that textbooks were favorable to them, and if they were not to have them revised. After making surveys of all textbooks used they brought pressure to bear on the local school boards or took the matter up with the authors to have them modify or eliminate statements that were objectionable. They actually were able to get an agreement with the leading book publishers to have textbooks submitted to the National Electric Light Association in advance.<sup>23</sup>

In general the utilities seem to have been successful in their

control of textbooks. At any rate, Mr. Carmichael of the Iowa Public Utility Information Bureau said, "We believe we have this matter pretty well in hand here. After three years' work most of the really objectionable textbooks have been eliminated." <sup>24</sup> Even today free educational material is being sent out, which includes primers on economics and civilization charts. <sup>25</sup>

Antioch College is one of the more liberal colleges in America. Its president, A. E. Morgan, appointed by President Roosevelt to head the Tennessee Valley Authority, said in 1934:

Dictatorship in America would be but the extension of methods already in use. Millions of Americans have long lived under industrial dictatorship. . . . In recent years a powerful industrial dynasty was represented in the national cabinet, and dictated public administration to its private ends.

To illustrate this President Morgan told of a recent example of pressure by the utilities at Antioch in these words:

An Antioch faculty member addressed a Kiwanis Club on a municipal power plant. The general manager of the utility system controlling that region criticized the president of Antioch for permitting a talk on that subject. The president remarked the speech was so conservative that the speaker was accused of being a utility employee. The utility manager replied substantially as follows:

"We object to any discussion. The subject of public ownership in our territory is a closed matter, and any least suggestion of encouragement to discuss it is an offense to us. We have fought for that territory and have won it, and are going to hold it by every means in our power. That is how business is done." <sup>26</sup>

#### PUBLIC DUTY

A powerful reason why education in America is subservient to capitalism can best be understood by a study of the various boards of control. Scott Nearing, in *School and Society* for January 20, 1917, reported the results of an investigation of 131 cities of over 40,000 population, of which replies had been received from 104. The number of school-board members was 967. The business class, including merchants and manufacturers, capitalists and contractors, real-estate and insurance men, numbered 433; the professional class, 333; and miscellaneous, 201,

which included 48 clerks and salesmen and 39 mechanics and wage earners. It can thus be seen that the commercial class, with their lawyers, composed 59 per cent of the cities' boards of education.

Professor Counts made a later study of 532 city boards of education in 1926. He found that 31 per cent of the members of the boards of education belong to the proprietor class; 30 per cent to the professional class; 14 per cent to the managerial class, and 7 per cent to the commercial. This means that 52 per cent of the boards of control were either proprietors, managers, or those who were engaged in buying and selling. If the lawyers were added this would give to the make-up of the boards a substantial majority who would probably have class interests identical with capitalism. The five leading occupations in the city boards of education were merchants, 16 per cent; lawyers, 13 per cent; physicians, 9 per cent; manufacturers, 6 per cent; and bankers, 6 per cent.

In view of this it is not surprising that any educational practice which encroaches upon the profits of the business interests is usually thrown out. For example, in New Haven, Connecticut, the Normal School arranged to have the children make shoes. The leather was purchased at wholesale, cut in advance, and the children could make useful and attractive shoes for themselves at \$1.50 a pair. This offered a fine opportunity for them to learn something about marketing and the costs of production. Unfortunately, as soon as the retail merchants heard of the plan they sent in official protests and the school board ordered this educational project discontinued. Why should a sound educational policy be tolerated if it interferes with vested interests?

In his last report, published at the end of 1933, the superintendent of schools of New York City frankly declares that the school system is for the perpetuation of the *status quo*. "The American state erects its schools as a bulwark of protection for its social, economic and political life."<sup>27</sup> He would remove all who teach "subversive doctrines." This is the attitude of a large number of public educators.

The widespread control of colleges and universities by busi-

ness interests is well known. In the issue of *School and Society* for September 8, 1917, Scott Nearing reported an investigation of 143 of the leading colleges and universities of the United States. There were a total of 2,470 trustees, of whom 58 per cent, 1,444, were of the commercial and financial class.

Evans Clark, now executive head of the Twentieth Century Fund, made a study prior to 1923 of the governing boards of the largest American universities—seven of these were privately controlled and twenty-two state controlled. He found that bankers, manufacturers, merchants, public-utility officers, financiers, great publishers, and lawyers comprised 56 per cent of the membership of the privately controlled boards and 68 per cent of the publicly controlled boards. He found farmers represented by 6 per cent on the private and 4 per cent on the public boards, while no representative of labor had a place on any board. He concludes, "We have allowed the education of our youth to fall into the absolute control of a group of men who represent not only a minority of the total population, but have, at the same time, enormous economic and business stakes in what kind of an education it shall be."<sup>28</sup>

In 1932 and 1933 one of the students of the writer made a study of the occupations and of the directorships held by the trustees of the universities with \$10,000,000 endowment or more.

Of the 659 directors of the twenty-seven universities in this group information was secured for 630, or 95 per cent. The occupations or affiliations of these fall into the following general categories:

1. Banks, trust companies, insurance, investments.....	254
2. Manufacturing and merchandise .....	141
3. Utilities: power, gas, water, lumber, coal, oil, telephone, mining	111
4. Railroads .....	63
5. Clergy, educators, physicians, lawyers, other professional.....	153
6. Judges .....	22
7. Editors and publishers .....	7
Total .....	751

No person is counted more than once in any single category, but in a few cases one individual might be found included as a director in all or several of the first four groups.



It will be noted that in the last three groups (5, 6, 7), which are not necessarily of the business viewpoint, there are 182, or less than 30 per cent of the actual number of individuals involved.

The following table shows clearly that there is an interlocking directorate between the control of our large corporations and of our large colleges and universities.

OCCUPATIONS AND DIRECTORSHIPS OF THE TRUSTEES OF UNIVERSITIES AND COLLEGES WITH \$10,000,000 ENDOWMENT OR OVER <sup>29</sup>

Institution	Endowment	Number of Trustees	Bankers, trust companies, insurance, investment executives	Manufacturers, merchants	Public utilities	Railroads	Professional	Judges	Editors, publishers
Harvard .....	\$117,204,250	33	12	6	4	4	9	2	..
Yale .....	95,575,043	20	10	5	5	2	8	1	1
Columbia .....	86,113,328	23	9	5	..	3	4	..	..
Chicago .....	61,502,851	30	11	5	2	2	6	1	..
Massachusetts Institute of Technology .....	34,770,000	48	21	23	20	8	10	..	..
Rochester .....	33,800,000	25	10	6	4	..	2	..	..
Stanford .....	31,500,000	31	14	4	11	..	5	2	1
Texas .....	30,984,032	10	3	..	2	1	6	..	..
Johns Hopkins .....	30,807,421	18	8	3	6	3	3	1	..
Princeton .....	27,172,009	34	17	5	2	5	12	..	..
Cornell .....	25,139,469	30	12	5	10	..	6	2	..
Northwestern .....	24,450,000	10	7	4	..	..	..	..	..
Duke .....	23,333,473	36	5	5	..	..	9	1	..
Vanderbilt .....	20,000,000	31	14	4	3	9	10	2	..
Washington University (St. Louis) .....	18,565,286	18	5	7	3	3	..	..	..
Oberlin .....	18,053,918	24	2	3	..	..	14	..	..
California .....	16,834,000	17	11	..	3	2	1	..	2
Carnegie Institute of Technology .....	16,338,039	36	15	16	10	3	1	4	..
Dartmouth .....	16,000,000	12	8	2	..	..	4	..	2
Pennsylvania .....	13,800,000	40	10	6	6	4	17	3	..
Western Reserve .....	11,468,225	24	10	8	2	5	3	2	..
Minnesota .....	10,681,421	12	3	..	2	1	1	..	..
Brown .....	10,630,797	49	16	10	5	3	15	2	1
California Institute of Technology .....	10,500,000	15	5	3	6	1	3	..	..
Virginia .....	10,311,906	10	5	2	1	2	1	1	..
Tulane .....	10,060,052	17	7	2	3	2	3	..	..
Rice Institute .....	10,000,000	6	4	2	1	..	..	..	..

It will be noted that the laborers and farmers who make up an overwhelming majority of the American people were not represented. From many points of view this is not strange. It is reasonably clear that the same men who run our banks, manufacturing corporations, public utilities, and railroads also run our universities. Furthermore, if the figures for 1917 are compared with such data as we now have, apparently increasing control by these classes would be found. This is natural enough, but it is an indication that education and research are likely to be warped in a direction favorable to business and capitalism.

Stephen P. Duggan, director of the Institute of International Education, says in an article on "Present Tendencies in College Administration," "A board of trustees was and is almost wholly made up of business men and lawyers. From its personnel as well as its method of appointment it is an extremely conservative body."<sup>30</sup> That the university "plays the purely commercial game of the merchant whose sole concern is profit or of the shop assistant who thinks that an academic certificate in a business subject may bring him an increased salary,"<sup>31</sup> is the conclusion of Abraham Flexner, after making a study for the Carnegie Foundation for the Advancement of Teaching.

#### HIGH STANDARDS

The report of the same foundation on "Dental Education"<sup>32</sup> shows the extreme to which capitalism may go in commercializing graduate schools. It is reported that even the chief university dental schools lend store space to the sellers of dental goods. Deans of schools become involved in the advertising of dental goods and even some of the best dental journals "sell their pages for the deception of dentists and their patients." There are students who do not become expert because it is realized that profits can be as readily secured by superficial training. One leading dentist in New York City told the writer that in the final examinations he personally had filled teeth for three other students to "get them by." To the enquiry, how then could they later on fill patients' teeth in their regular prac-

tice, the dentist laughed and answered, "Of course they experimented on their patients until they learned how."

Commercialism may be worse in the dental schools than in others, but in nearly all schools it can easily play a part, for the trustees are business men and this is a capitalistic civilization. In fact, John R. Commons concluded after a lifetime of educational service, "It was not religion, it was capitalism that governed Christian colleges." <sup>32a</sup>

#### PATRIOTISM

The control exerted by university boards is such that presidents are usually cautious about taking any teacher about whose economic views there may be question. For example, Scott Nearing is an exceptionally stimulating teacher, but for years he has been unable to secure a teaching position in any college or university. In the second place, if a liberal teacher secures a position he stands in constant danger of being discharged or released at the expiration of his contract; or, if he is kept on, he is likely not to be promoted.

Dr. Lyford P. Edwards, head of the department of social science at Saint Stephen's College of Columbia University, was teaching at Rice Institute at Houston, Texas, in 1918. This is a college which in 1932 had 1,461 students. Because he commented on the Russian situation he was actually forced suddenly and secretly to leave by train to save his life. He tells of the incident as follows:

In March, 1918, being then an instructor in Sociology at Rice Institute, I gave a series of talks to the Current Events Class of the First Congregational Church of Houston. In one of these talks I said that in the future, Lenin would be regarded as a sort of saint in Russia—just as Washington is regarded in the United States. This greatly angered the Patriotic Societies—as a vile slander on Washington. They demanded my expulsion from Rice as a person rotten with Sovietism. I was called before the trustees and questioned. My replies honestly alarmed them. I asserted that a document put out by the United States Senate—a thing about the alleged nationalization of women in Russia—was a pack of lies. It was war time, and they had the hysteria, and interpreted my reply

as a sort of lese-majesty against the government. My very mild suggestion that recognition of the Soviet might be possible in the future aroused horror. I was told that I was guilty of treason against civilization; that I was an enemy of God, the family, the Christian religion and several other things which I do not now remember. A secret service man was put in my classes. The poor fellow was a bit puzzled about the Mousterian Culture and the Neanderthal man, but it was evident that I did not follow the Book of Genesis very literally and then the Fundamentalist clergy joined the hue and cry. The newspapers finally stirred up public sentiment to the point where I had to leave suddenly in order to stay alive.<sup>33</sup>

This was in war time and may seem exceptional, but actually capitalistic pressure is extraordinarily powerful even under the New Deal and in forward-looking states.

The situation implied in the following letter received by the author could be duplicated many times over and bespeaks the genuine danger in which an open-minded school man finds himself and the caution with which he must act. Yet this letter is from one of the most liberal states in the Union.

Dear Dr. Davis:

I wonder whether you are aware that your name is among those listed in *The Red Network*, by Mrs. Elizabeth Dilling, who publishes this work at 530 West Jackson Blvd., Chicago, at a cost of 75 cents per copy, 1934 copyright?

[Here the writer mentions textbooks by the author and a colleague, who] is listed in the above-mentioned exposé as one who seeks to poison the mind of America, along with Dr. E. A. Ross, Glenn Frank, Jane Addams, Mrs. Franklin D. Roosevelt, Profs. Berle, Tugwell, etc. It is Dr. Wirt's charges all over again, with amplifications, connections, etc.

Isn't there some way in which such unfairness and character assassination can be stopped? Now that Congress is investigating the Nazis and the Silver Shirts at Asheville, N. C., why can't its attention be directed to the Better America Federation and the American Vigilance Intelligence Federation, both of Chicago, who constantly send out literature and speakers around here blacklisting men and authors like yourself, as well as the organizations to which you belong?

This is just a cry from the wilderness for encouragement and assistance. With Mr. Roosevelt in power, there appears some chance for relief.

I am also writing to Dr. Hayes, as I thought you men ought to know about this.

*Please keep this letter extremely confidential as its contents, made known, would greatly embarrass me, since it is one of our local school board members who is so determined to oust subversive books from circulation.*

#### SAFETY AND SANITY

It is no wonder that in the essay of Veblen on "The Higher Learning in America," he says of the business men who make up the governing boards of our universities:

The wealth and serviceable results that come of the endeavors of these enterprising and temerarious Americans habitually inure to the benefit of such of their compatriots as are endowed with a "safe and sane" spirit of "watchful waiting," of caution, collusion and chicane. There is a homely but well accepted American colloquialism which says that "the silent hog eats the swill."<sup>34</sup>

He says of the president, "The executive in all his works and words must avoid blame from any source from which criticism might conceivably affect the traffic with which he is occupied."

Veblen's suggestion as to a remedy is to abolish the executives and the governing board. He says, "Anything short of this heroic remedy is bound to fail because the evils sought to be remedied are inherent in these organizations and intrinsic to their functioning."

The president of Randolph-Macon College quotes a letter from a close student of public affairs and a great friend of Woodrow Wilson as follows: "If the colleges do not find a way to teach contrary to their trustees' and benefactors' wishes there will be a terrible revolution before Randolph-Macon celebrates its one hundred and fiftieth anniversary. There is no law of human behavior or example of history to the contrary."<sup>35</sup>

Whether or not one accepts this prophecy, the solution of Veblen, or some other, it is certain beyond question that the American college executive is to some degree biased in favor of the existing *status quo*. This does not mean to imply that he

will not assume a measure of progressivism if, for example, it becomes popular to do so under, let us say, the New Deal.

#### SELF-DENIAL

Not only is the personnel of the boards of the public school and university revealing as to capitalistic control, but so are the sources from which educational revenue is derived. In the public school system this rests on taxation, which inevitably presses down on the propertied classes. The result is that we cannot have equality of education in the United States, for it depends upon the prosperity of the propertied interests in the particular locality. The extent of the variation of income in different states can be readily appreciated when it is realized that the general property tax may bring \$58 per child in one state and \$457 in another. This difference is accentuated by the maldistribution of wealth under capitalism. It is widely recognized that we have an archaic and inadequate form of school taxation which places undue burdens upon the property owners in local communities, making it difficult for these communities to provide necessary education for their children. In times of business depression under the capitalistic system the business interests desire to be relieved of the burdens of taxation to the maximum extent possible. What more natural than that they should reduce school appropriations? The Federal Advisory Committee on Emergency in Education recognizes this as so serious as to endanger the effectiveness of the schools throughout the nation.<sup>36</sup>

It is rather ridiculous to think it possible to have uniform educational opportunities in a country where the concentration of wealth is so pronounced as in capitalistic America. One southern state, for instance, in 1918 expended over \$48.06 per white student in one county and in another only \$15.92. In the same state the maximum for negroes was \$12.75 and the minimum was \$1.36. In a western state the expenditures per child varied from \$44 to \$21. In one state the average annual expenditures per child were \$13.13. In another state it was \$96.44. The average annual salaries of teachers vary similarly—in a single state for

the same class of teacher in the public school the salaries varied from \$1,340 to \$308.

#### PRIME IMPORTANCE

If the capitalistic classes realized the vital importance of education and acted on this conviction they would increase appropriations during a period of depression when enforced leisure makes education increasingly necessary. Instead of this, money by the millions is squandered to help the business interests and to establish public works. But isn't it just as wise to build school-houses as to build roads? The United States Commissioner of Education says: "With the \$300,000,000 allocated to roads in the public works acts alone, with one-eleventh of the total sum, we could rebuild each rural school of the country with modern consolidated school plants." Instead of making education minister to the leisure-time activities of the American people, he declares we have stood idly by and permitted "the private commercial agencies, including moving pictures, automobiles, radio, pool halls, and newspapers, good and bad, to absorb the time and money of the American people while they are not at work." <sup>27</sup>

#### PURE SCHOLARSHIP

In the universities endowment is provided for the most part by the capitalistic interests and consequently education tends to be refracted in harmony with the attitude patterns of capitalists. Professors are not supposed ordinarily to take an active part in strike situations, or to aid the trade-union movement of the state. Even funds which have been allocated for scientific research must not be expended in exposing the delinquencies of the dominant business interests of the state in which the university is located. There is a tendency for universities to support noncontroversial activities. Athletics, fraternities, and sororities do not arouse the opposition of the vested interests. J. I. Wyer of the New York State Library charges that administrators lack appreciation of and provide inadequate support for college libraries. Whether this charge is valid or not, it is certainly true that because the funds come from the wealthy it is far

easier to get gifts for large buildings than for books or professors or research into problems controversial or otherwise.

A further factor which should not be overlooked is the invested endowment of colleges and universities in capitalistic enterprises. Usually little or no attempt is made to weigh the ethical patterns of the corporations in which the money is invested. A university corporation which held railroad and utility bonds and stocks would of necessity not be particularly friendly to a campaign on the part of its professors for public ownership of municipal utility plants, if this meant in practice the shrinkage of university income.

### CONTENTMENT

In view of the control by the business interests it is understandable why the curriculum does not teach the student to question the dominant capitalistic standard. As a whole the boards both of our public schools and our universities prefer to have textbooks and courses which do not offend any substantial group in the community. The books used are usually conservative in tone. Examination of some of the textbooks in our public schools shows the bias lies in favor of the dominant system. For example, in "American Democracy," by Berry and Howe, it is stated "that private property is one of the fundamental institutions of American democracy . . . an unmistakable index of social progress . . . which cannot be destroyed without destroying also the ideals of liberty and democracy in which Americans believe."

Professor Peter Odegard cites another example, in a textbook which has been very widely used, in these words:

[It] is profusely illustrated with pictures supplied by large corporations showing company Americanization schools, flag raising exercises, factory gardens, employees of long and faithful service, and those who own company stock. The United States Steel Corporation, the International Harvester Company, and others are described as "employers of the right sort." Lenin and Trotsky are dismissed as "two able and unscrupulous leaders" and the student is told that "no civilized people tolerate anarchists." <sup>38</sup>



Odegard, as a result of his study, concludes:

It is obvious that education in America is regarded, not as a means for stimulating in the children a desire to know the truth, but as a means for inoculating them with the stereotypes and superstitions of the dominant groups in control. We have a lock-step system of education. We do not want citizens, but crowd men. We desire to make not free men but robots, weak and pitiful conformists clinging to the futile phobias of the past. We are making goslings of our children, teaching them to goose step to the tune of "The Stars and Stripes Forever." <sup>39</sup>

While it may only partially be due to capitalism, it is not surprising that after a scientific study for six years a recent report of the Carnegie Foundation should show that the average Pennsylvania college is merely a diploma mill. In general knowledge college seniors made almost no advance over freshmen, and in such subjects as spelling and English knew less than sophomores. Thirty per cent of *high school* seniors, although four years younger, passed the scientific tests of the study with a higher ranking than college seniors about to be graduated. <sup>40</sup>

Professor R. H. Wheeler from the University of Kansas maintains that American education has been molded along materialistic and success lines. He declares "Education is on the firing line because it is saturated with a hypocritical and false utilitarianism." <sup>41</sup> This is only natural since the child is taught competition, which is in harmony with the business pattern, although the secret of democracy is coöperation.

#### FREEDOM

*The bias of our educational system is glaringly exposed in the abridgment of academic freedom.* In 1921 the New York legislature passed a law "that all applicants for teachers' licenses must be loyal and obedient citizens, and no certificate shall be issued to any person who has agitated either by word of mouth or by writing for a change in the form of government of the United States or of this state by force, violence or any unlawful means." This law aroused so much opposition that it was repealed in 1923, but similar statutes have been passed in Ohio,

Michigan, West Virginia, Tennessee, Oklahoma, Nebraska, South Dakota, Nevada, Idaho, Montana, and Washington. In 1920 F. H. Mattingly was dismissed from the schools of Poughkeepsie, New York, because at a socialist meeting he characterized the espionage law as a measure of despotism.

The teachers have had a long struggle to enjoy the right of belonging to a professional organization of their own. In 1914, in the public schools of Cleveland, Ohio, such an organization was formed. The board of education thereupon advised them to disband and added a clause in the teachers' contracts which forbade joining a union during employment. In 1916 the supreme court of Illinois upheld the right of the Chicago board of education to dismiss sixty-eight teachers for belonging to the teachers' union. In 1928 the superior court of the state of Washington cited this case in upholding the Seattle board of education's dismissal of teachers who refused to sign a contract prohibiting membership in such a union.

In the universities and colleges pressure on the individual instructor comes from the corporation and trustees. A few examples out of the scores that might be cited will show what is frequently happening.

In 1918 Louis Levine was discharged from the University of Montana for making a scientific report on taxation in which, unfortunately for him, the facts showed that the great copper companies were not paying enough taxes.

In 1920 Laski, who had expressed sympathy for the police strike in Boston, was made to feel so uncomfortable at Harvard that he finally resigned and went to London.

In 1926 Professor Kirkpatrick was refused reappointment at Olivet because he discussed the control of higher education by business interests.

In 1927 Professor Auerbach was dismissed from the University of Pennsylvania because of a favorable attitude toward Soviet Russia. The department stated that it was "incompatible for a man to take a stand on a public issue and at the same time to retain the critical state of mind necessary for research in philosophy and teaching."

The University of Pittsburgh provides a striking recent example. Not long ago twenty-one members of the faculty joined the Pittsburgh branch of the American Civil Liberties Union. By 1934 nineteen of the number had left the university. Some of them were discharged, others were so censored in their attitudes that they found it advisable to leave. Perhaps the most striking case was that of Dr. Ralph E. Turner who had taught for nine years as professor of history. He had been chairman of the Pennsylvania Security League, which seeks social justice through legislation. Although Dr. Turner had been voted the most popular man on the campus by the seniors two years before, and the chancellor had characterized him as one of the ten best teachers in the college, nevertheless the same chancellor summarily dismissed him in the midst of a fund-raising campaign. Pressed for a reason, the chancellor declared that Professor Turner had been criticized by several local clergymen for his lack of religious faith. Shortly thereafter, however, some of the local religious leaders passed a resolution endorsing Professor Turner. The governor of the state, Mr. Pinchot, declared, "The university has been perverted to conform to the views of a small group of wealthy and powerful people. If the Mellons want a school to teach their ideas, let them support it. It is the settled policy of the university to suppress liberal causes and independent figures."<sup>42</sup>

It must be remembered that for every teacher discharged there are probably hundreds who are cowed into submission by fear of dismissal.

#### IMPARTIALITY

The American Association of University Professors investigates cases where professors have been dismissed in violation of their rights. It is extremely interesting that although there have been hundreds of cases of professors who have been dismissed, it does not have a single case of a conservative who was dismissed because of subservience to financial interests, even in the case of professors who secretly accepted retainers from the public-utility interests. The latter pretended to lecture impartially while

all the time receiving such pay. After widespread investigation the writer was unable to discover a single authenticated case where one of these men has been forced to leave the university. A few alleged cases were reported but investigation proved that the professor involved, instead of being discharged, had always been promoted to a position with a higher salary. If discharges are all among those with liberal tendencies (and it is beyond dispute that scores of cases of this kind can be cited) while not a single instance can be cited of dismissal for subservience to the vested interests, it is obvious that education is refracted in the United States.

In an extensive study of cases of dismissal, the president of the American Association of University Professors in 1922 characterized the executives of our colleges and universities in these words:

In nearly all the cases . . . the ordinary rules of fair play have been ignored. . . . What particularly impresses me is the seeming disregard of the common principles of justice shown by persons who, as governors of educational institutions, ought to have set a conspicuous example of fair dealing.<sup>43</sup>

The overwhelming majority of professors, of course, have had no pressures applied to them because their attitudes and patterns of conduct are similar to that of the dominant culture. They probably do not realize that any exist. Let a professor in the social sciences hold unconventional views on any subject and pressure is quickly applied, as we have already noted in the case of Professor Edwards.

#### COURAGE

Professor Counts defines the average college professor as:

. . . the individual who adopts an agnostic attitude towards every important social issue, who can balance the pros against the cons with the skill of a juggler, who sees all sides of every question and never commits himself to any, who delays action until all the facts are in, who knows that all the facts will never come in, who consequently holds his judgment in a state of indefinite suspension.<sup>44</sup>

The eminent English economist, J. A. Hobson, devotes an entire volume to proving that under capitalism we do not have "free thought in the social sciences." "He who pays the piper calls the tune, even helps to screen the more delicate manipulations of the 'hidden hand.'" He maintains that the greatest danger in our universities lies in the "timid conservatism of the professors and their genuine class sympathies and reverences. They are not so much the intellectual mercenaries of the vested interests as their volunteers." "He believes that in America the radicals are expelled from the universities or at least refused promotion, while in England as a rule they are not even permitted to become teachers.

A concrete example of the danger to freedom because of business control is given in one of our largest universities. Ferdinand Pecora was counsel for the United States Senate Commission on Banking. He had brilliantly conducted the hearings, including an investigation into J. P. Morgan and Company. Later he was appointed to an important post by the president of the United States. One of the professors of a certain university secured Pecora to speak. The trustees refused to grant permission for him to speak in any of the university buildings.

#### GUIDANCE

Ordinarily the technique of inducing a professor to be "respectable" and conventional is rather a delicate one. One teacher in a leading university of the United States had assisted in the organization of a forum for the executives of the factories, but he had also helped the trade-unions to organize a forum. It was not long before the dean of the school received the following letter from one of the influential trustees.\*

Dear [Mr. Dean]:

For some time I have resisted the appeals of friends to do something to counteract the activities in the labor world of Professor Blank. I entirely recognize the desirability of leaving teachers free in their search for truth and in their methods of expressing this truth to their students.

\* A few words have been omitted so as not to identify the university involved.

If, however, our professors are to enter the controversial field of labor and capital outside of their classes, I do not see how we can resist the pressure for an exposition of at least the other side. The — city men are particularly exercised by Professor Blank's efforts to unionize the non-union factories and employees in the city, and they desire that the open shop cause be adequately represented if the teachers of — University are to use their positions for the conversion of labor to the union cause.

I wish that it might not be necessary to meet this issue because it so unnecessarily diverts our instructors from their true purpose. The fields in which violent partisanship and bitter feelings lead are far afield from the aims of their particular department of instruction. I am writing to you in the hope that you can suggest some way that neither places any restraint upon the professor's desire to realize and express any essential truth to his students, but at the same time avoids the distractions of his energies and the dissipation of his influence by the necessity of getting into partisan controversies of an economic type which arouse bitter feelings on both sides outside of the university walls. I should hate to see our — school become the theatre of a debate on the evils of unionism and the advantages of the open shop, and hope you can find some reasonable alternative.

Sincerely yours,

\_\_\_\_\_,  
Trustee.

As a result of this letter <sup>46</sup> the teacher involved met with the trustee, who again urged him to drop all outside labor work. When the teacher declared that he was not spending more than one evening a month in this work and only helping to provide the workers with educational opportunities, and refused to accede to the request, the renewal of his teaching contract was held up for months and promotion, of course, was later opposed.

In another case the professor of a very large university took occasion in addressing some ministers in Chicago to speak of the revelations of the Federal Trade Commission in regard to the public utilities. He referred to some of the practices there disclosed as a form of "higher racketeering." Before he returned home the treasurer of the university had received a letter from Samuel Insull, Jr., about the newspaper report of the address, enclosing a letter to the professor, which said in part:

Dear Sir:

If you could conveniently furnish them, I should greatly appreciate a copy of your remarks that are mentioned in the attached clipping, or at least of that part of them that refer to the group of public utilities with which I am connected.

Not knowing exactly where to address you, I have taken the liberty of sending this letter under cover to Mr. —, the Treasurer, and asking him to turn it over to you.

Yours very truly,  
SAMUEL INSULL, JR.

Later the professor received a letter from the dean which stated, among other things:

I have received a letter from [the treasurer of the university] telling me that you have sent to him your letter to Mr. Insull. Mr. [the treasurer] makes the suggestion that for your own protection and in fairness to the University, you should in all cases when you give an address outside of your regular work here at the University have a copy of such address so that you may be in a position to furnish a copy, if inquiries such as that of Mr. Insull are made.

In reply to this letter the professor wrote to the dean:

I appreciate something of the trouble it must cause you when Mr. Insull writes to the Treasurer of the University about my attack on the "power monopoly." Nevertheless I am convinced that writing out my addresses, as I often do, would not help either you or me. I almost never follow my written manuscript. I had a written address for my talk in Chicago and it did not refer to the power interests at all, but nevertheless I believed it advisable to refer briefly to this question in the course of my address and would do so again. I believe that everything I said was in accord with the facts and am prepared to stand on what I said. I know of no professor in the United States who has been required by his university to write out every address. I cannot conscientiously agree to do this.

The professor also received complaints from the presidents of other Insull subsidiaries. Apparently the paid emissaries of the Insull interests had been instructed to attack this professor throughout his territory. At least ten months later the super-

intendent of schools of a leading city several hundred miles from the college wrote to the president of the university as follows: <sup>46</sup>

At a joint meeting this noon of the various weekly luncheon clubs (Rotary, Kiwanis, etc.) a gentleman from Chicago, who is an official of one of the Insull Public Utility Companies, made the statement that our colleges are honeycombed with professors who have communistic tendencies, and are in sympathy with Soviet Russia. He mentioned one man who was particularly interested in this work, Professor —.

Some of my friends here were profoundly impressed by the Insull gentleman's statements and I am checking up on them. Would you care to let me know whether in your opinion, Professor — is a dangerous man who is plotting with Moscow to overturn the American government, destroy the Constitution, etc.?

Your reply will be shown to a few friends, but will not be given to the papers.

Very sincerely yours,  
\_\_\_\_\_.

The refraction of educational policy is clearly seen in any number of diverse examples of what happens in our public school system. In a normal school at West Chester, Pennsylvania, a group of instructors and students met to discuss the policy of the United States toward Nicaragua. The American Legion immediately protested to the principal. The principal asked the liberal club to disband. It did not disband and Professors Kerlin and Kinneman were then discharged by the board of trustees. Major Farrell of the American Legion then stated, "There is no justification for students in a tax-supported institution to criticize the government that gives them an education." <sup>47</sup>

#### CONSECRATION

In New York City the following statement was officially issued:

In determining whether or not a teacher shall be promoted, the Board of Superintendents is obligated to take into account the history of the teacher, his public opinions, the persons with whom he associates, and his attitude toward governmental questions. A teacher may not have one set of opinions for the classroom and another for the public platform.



As a school teacher he has not the same rights as other citizens to print, publish, or declare his thoughts and opinions. He is no longer at liberty to "freely write, speak, or publish." This is not an interference with his rights as a citizen. His rights are as "free and untrammelled as they ever were." He may at any time emancipate himself from the shackles of the department and exercise his full rights as an American citizen by resigning his position.<sup>48</sup>

The board of education of New York City consisted in 1934 of five men and one woman appointed by Mayors Walker and O'Brien for seven-year terms. Its president is the head of the Long Island City Savings Bank, besides being interested in real estate. Its vice president is head of a printing concern. The others are lawyers, bankers, and business men.

That the extraordinary policy in New York City is not an isolated instance can be seen by the statement of the distinguished group of educators, including Professor Kilpatrick, Professor Bode and Professor John Dewey, who issued a volume on "The Educational Frontier." They declare that the interests outside the school insist that "our economic order must be kept inviolate from criticism emanating from political or economic history." In Los Angeles this meant that both the *Nation* and *New Republic* were debarred from the schools.

Educators are most free in those fields where they do not jeopardize any business interest. No wonder most dissertations avoid "dangerous" subjects and are often theoretical in the extreme. One thesis for the degree of doctor of philosophy was written on "The Mechanics of a Soap Bubble." As long as teacher or student wrestles with philosophy, methodology, or scientific inquiry apart from the present, active world of men and affairs he is reasonably safe. If an educator attempt genuine freedom in a controversial realm he usually collides with some vested interest with such force that the sparks fly, also perchance the educator.

#### SELECTION

Not only is there subtle control in the colleges and public schools, but the domination in the outside field of adult education

is just as great. In Canada, in December, 1933, the National Council of Education attempted to dictate to Captain Carl J. Ketchum, M.C., what pictures he should show on Russia and what he should say, although the council had previously invited him to Canada for a lecture tour on this subject. The result was that Captain Ketchum was forced to give up lecturing under their auspices. An editorial attacking the National Council of Education, printed by the *Citizen* of Ottawa, closed with this sentence, "One menace of Moscow has been, from the first, the absurd effort of high authority in other countries to prevent people from learning as much as they wanted to know of the Soviet Elysium."<sup>49</sup> Apparently the Council of Education of Canada is subject to the pressure of certain vested interests. Of course, lectures with the "right" attitude against Russia would not be censored.

#### A CAPITALISTIC CLIMATE

From all that has been said it must not be assumed that many liberal teachers and professors are not allowed to maintain their positions. They are, however, in increasing jeopardy to the extent that they do work outside of the classroom which interferes with big business. In most educational institutions definite organization of labor unions or political activity on behalf of socialism in leisure time is highly precarious. The fact is that the climate of American education is capitalistic. Professor Counts has stated that education is not accepted because it is valid but "rather because it serves a group in its struggles for rights and privileges and a place in the sun."<sup>50</sup>

In his study of the public school system in Chicago, Professor Counts shows that the purchase of school sites, the building of school rooms, the issuance of textbooks, and the flotation of bond issues all offer a tempting banquet to the commercial and financial interests. He concludes that the existing control "fosters the resort to hypocrisy." Each board member must pretend he is acting in the public interest when really he is voting for some special interest. In his Chapter VIII Professor Counts describes The Silent Power of the Association of Commerce.<sup>50</sup>

The report of the Commission on the Social Studies of the American Historical Association quotes with approval a statement by Professor Dewey that even in the best-administered schools in the country the most judicious attitude on the part of the teachers treating the relations of the United States to Soviet Russia is immediately condemned as sheer bolshevism. It declares, "In some communities supposed to be enlightened, teachers are forbidden to discuss Russia without denouncing her form of government and system of economy. According to the testimony of members of this commission, teachers of history in a certain state of the Union do not dare to allow their neighbors to know that they are studying in a scientific spirit the history of recent times in Russia," or even that they have books on this subject in their possession.<sup>51</sup>

It is considered very appropriate at a "Conference on the Obligation of the Universities to the Social Order" to have Thomas W. Lamont of J. P. Morgan and Company speak. It would not be considered appropriate to extend a like invitation to the candidate for the presidency on the Communist Party ticket. Most teachers accept as a matter of course the statement of Mr. Lamont that we must continue to live in the "house" of the capitalistic system. "It has with all its ups and downs brought to mankind increasing comfort and happiness."<sup>52</sup>

Professor George S. Counts has cogently summarized the influence of the financial interests in the American public school system as follows, "On all genuinely crucial matters the school follows the wishes of the groups or classes that actually rule society."<sup>53</sup>

It must be recognized, of course, that business men have poured millions of dollars into our colleges and universities. They have secured social prestige, often honorary degrees, in financing the buildings. Sometimes entire colleges have been erected as memorials in their honor. It is, of course, questionable whether success in the struggle for capitalistic profits necessarily fits any individual with the requisite scientific capacity to direct funds for educational purposes. The result is that millions of dollars are used for questionable plant and equip-

ment, even squandered in needless expenditures. In one of our greatest universities money was given to build a memorial unit for one of the graduate schools. The faculty of that department had suggested a moderate amount for building and any additional funds, if available, to be used for instruction. The repeated requests of the faculty, however, were overruled and four or five times the amount needed for building was used, with the result that badly needed funds for instruction were not available.<sup>54</sup>

#### DIVERSITY

The extent to which research is<sup>4</sup> steered by capitalism is clearly apparent in the study of American foundations by the Twentieth Century Fund.<sup>55</sup> Published in 1931, this showed that out of a total of \$52,000,000 only \$61,808 was spent in the entire field of race relations, only \$36,000 for all "meritorious service," \$19,000 for handicrafts, \$15,144 for civil liberties, and \$9,570 for labor unions. If we add all these fields together the amount spent was only \$141,522 or .002+ of the total. Even of this small amount, all the money for civil liberties and for labor unions was given by a radical who had refused to accept money which he inherited. Outside of these two items there was probably no expenditure in all the \$52,000,000 which was likely to disturb the dominant capitalistic system. While it cannot be denied that capitalism has showered endowments on many colleges, it has done so spottily and the country has paid a heavy price in the process.

#### CONFORMITY

Any impartial analysis of the school system in the United States will show *that it harmonizes with the dominant capitalistic pattern*. The private virtues are indirectly approved: health, kindness, generosity, honesty, truthfulness, thrift, and the work attitude. On the other hand, impartial studies of such subjects as capitalism, race relations, the trade-union movement, the maintenance of civil liberties, the functions of minorities, or exploitation by special interests are given relatively little place.

The fact is that the atmosphere of the schools and colleges

approves on the whole the self-seeking process of attaining wealth and power through economic instruments with little or no consideration of the poison that this process spreads. The result, says Professor Coe in his volume on "Educating for Citizenship," is that teachers become propagandists for half truth and for class advantage as if it were the general good. The National Education Association should have the interests of education more vitally at heart than almost any other agency. Yet its official journal, which has often been genuinely progressive, sees nothing inappropriate in accepting payment for a half-page advertisement from the chewing gum interests of the United States showing a boy indulging in gum. It declares that chewing gum five to ten minutes after meals reduces tooth decay, that "gum chewing should not only be permitted but encouraged."

#### RACE PURITY

Where our social prejudices are, there our education tends to lack objectivity. One clear illustration of this, strangely enough, is provided by the honor society which is dedicated to truth and scholarship—Phi Beta Kappa. It does not permit any chapter to be established in a Negro college, no matter how high the standards of the institution.

#### THE CRITICAL MIND

It is not uncommon to have college presidents urge their students to be critical-minded. "Learn to use your mind so as to subject to critical examination all that is currently accepted," was the exhortation of the president of the College of the City of New York to the freshman class one year. When, however, some first-class students subjected his militaristic ideas to this critical examination, they were dismissed.

The total effect of the refraction of our educational system by capitalism is great, even though in many cases it has made possible the gift of vast sums of money for educational purposes. The question might be raised as to whether this very lavish expenditure with its overemphasis on college athletics and sometimes luxurious buildings does not to some degree unfit the stu-

dent for seeing the realities of the class struggle. Even many teachers who are quite liberal in their classrooms may not sense the control which does exist. On the other hand, the total picture of the attitude of the teachers is clearly shown in the study made by Professor Harper.<sup>66</sup> He tested the attitudes of 2,900 educators. Out of 675 graduate educators tested in the various sections of the United States:

Thirty-three per cent agreed to the following proposition:

In teaching the vital problems of Citizenship teachers should so impress on the students the approved opinions in these matters that life's later experiences can never unsettle or modify the opinions given.

Forty-one per cent agreed to the following statement:

The practice of democracy, as developed in the United States, has no serious or far-reaching defects.

Thirty-seven per cent agreed with this dictum:

For the sake of our continued prosperity teachers should endeavor to give students of suitable age a firm understanding and belief in the protective tariff policy.

Twenty-seven per cent believed that:

The history of protective tariff legislation in this country is a worthy record of our government's impartial and efficient devotion to the welfare of all the people.

Thirty-five per cent affirmed that:

Histories written for elementary or high school use should omit any facts likely to cause students radically to question or doubt the justice of our social order and government.

(Of all the 2,900 educators, 54 per cent agreed with this.)

Of the total responses from teachers all over the nation:

Forty-eight per cent believed that those who believed in socialism should not be given teachers' certificates.

Fifty-one per cent felt that "radical" criticism of the country is always unjust and should be suppressed.

Fifty-six per cent believed that there would never be any wars if all nations were only as just as America.

Eighty-one per cent believed that every boy and girl "should be taught to give unquestioned and unlimited support to the American flag, for whatever cause it may be unfurled."<sup>57</sup>

Harper's findings, after testing teachers throughout the country, point to their extreme conservatism. There is a "tendency toward fidelity to tradition and authority relatively regardless of facts."

Dean Moffatt of Virginia State Teachers' College made a study and published a report on "Social Background and Activities of Teachers' College Students." He found that the American teacher prefers moving pictures to drama, musical comedy to grand opera, popular magazines to scholarly or serious reading.<sup>58</sup>

#### SOCIAL VALUES

Considering the attitudes of the teachers, it is not to be wondered at that they inculcate in the minds of the students ideas which are in harmony with a capitalistic culture. An attitude is a set of mind which determines one's response to particular situations or values. The studies made by Counts, Lehman, and Witty determined the prestige which teachers and students give to the many different occupations.<sup>59</sup> The social status ratings given for forty-five occupations by 368 high-school and college students and 82 teachers ranked the bankers first. Similar tests given to teachers'-college students in Minnesota revealed that the pupils valued the business and professional occupational levels the highest.<sup>60</sup> Other tests given to pupils in the schools of St. Louis indicated that the bankers were listed near the top. Apparently the capitalistic culture tends to inculcate capitalistic attitudes.

The effect of our educational system is not so much to train

individuals for the service of the public good as it is to stimulate a rugged individualism, getting ahead of others, and often of exploiting others. Theodore Roosevelt, who knew the value of higher education, nevertheless once said of his own Alma Mater, Harvard University, that it had educated more "crooks" than any other university in the nation.<sup>61</sup>

#### ABIDING BY LAW

Capitalism also affects educational policy in the labor relationships of many schools. Occasionally, for instance, one finds watchmen on duty twelve hours a night and seven days a week. Even universities which maintain expert teaching staffs in the field of industrial relations seldom permit their instructors to investigate or have charge of their own unskilled labor. The Minimum Wage Commission of Massachusetts not long ago discovered that the scrubwomen employed in cleaning the library at Harvard University were receiving less than the minimum allowed by law. In December, 1929, the Minimum Wage Commission threatened to make public this violation if the pay was not raised to thirty-seven cents an hour by December 26. Instead of complying Harvard discharged the women.

An investigation by the Consumers' League of Massachusetts showed that Harvard had deliberately paid its scrubwomen two cents an hour less than the state minimum for nine years. So shocking were the revelations to some of the Harvard alumni that a special fund was raised privately by these graduates and paid to the women as an act of simple justice.

#### SUMMARY

It seems probable that education today tends to refract the truth to the degree necessary to harmonize it with the dominant attitudes and practices of those in power in the economic and political world. The effect on the products of our educational system is often: (1) an ignorance as to the really serious maladjustment of wealth in the United States; (2) an acquiescence in the stratification within our American society; (3) an ignorance of and acquiescence in exploitation in the industrial and



economic world; Professor Coe, for instance, declares, "The usual conception of culture that these schools [private] take for granted has its history and its implication in the exploitation of man by man"; (4) the graduates of our educational institutions usually believe in the myth of equality of opportunity unless they have been disillusioned by their own bitter experience; (5) their ideas have undergone a definite process of commercialization; (6) they have not been led to question the validity of the dominant mores or to think through for themselves what patterns of behavior are the most valid in any society.

Professors Kilpatrick, Bode, and Dewey conclude, "Probably nowhere in the world at any time has there been so much teaching of an intimate relation between moral qualities and material reward as in this country."<sup>62</sup>

Everett Dean Martin describes a large number of college graduates as follows:

No profound intellectual passion has been awakened, no habit of independent judgment formed. The college man shares the usual popular prejudices of his community. He runs with the same crowd after the hero of the hour, and shows the same lack of discrimination as do the uneducated. He votes the same party ticket, is intolerant along with his neighbors, and puts the same value on material success.

Professors Kilpatrick, Bode, and Dewey again conclude that in our public school system "the outworn and irrelevant ideas of competitive private individualism, of *laissez faire*, of isolated competitive nationalism are all strenuously inculcated."

The result of the educational process is to leave those who do become executives in the economic mechanism secure in the belief that the present capitalism is bound to continue. As the assistant professor of educational sociology in the University of Minnesota has declared of these executives, "As school boys almost none of them were ever given any suspicions of its [the economic order's] imperfections and hence they cannot conceive of the question having any other side than their own."

Brooks Adams says, in his "Theory of Social Revolutions," "In the United States capital has long owned the leading uni-

versities by right of purchase, as it has owned the highways, the currency, the press, and capital has used the universities, in a general way, to develop capitalistic ideas."

Whether or not the reader agrees with this verdict, we can perhaps conclude that our educational system, stretching from the public and private secondary schools up through the state universities and the privately endowed forms of higher education, is refracted by the capitalistic media in which it is immersed. This distortion of perspective is to some degree handed on to the students who are its products. The established economic order demands that education shall, in general, produce the results which it requires. The schools are for the most part non-profit agencies operating within the framework of the profit economy. The benefits of education are incalculable and have been achieved in spite of the fetters of the capitalistic order. In spite of restrictions many teachers have considerable freedom. There is little doubt that on the whole teachers have more freedom to criticize the capitalistic system than teachers in the Soviet Union have freedom to criticize communism. Nevertheless, the educational system, whether considered from the standpoint of its control, its support, its curriculum, its teaching staff, or its finished product, is biased in favor of a capitalistic culture.

## CHAPTER XIX

### AN INTERLOCKING CONTROL OF RELIGION

THE church is a nonprofit agency. It is dedicated to the glory of God and the welfare of man. Whatever its shortcomings it has struggled to keep idealism and unselfishness in the human heart. However much it has failed in any age, there have always been heretics and prophets who have sprung from it to call man to repentance and a social vision. It is not our task to appraise the merits or demerits of religion but rather to show the relationship between the capitalistic system and organized religion. The capitalistic system seems to have had a corrosive effect on the ideals and the practices of Christianity.

Scattered all over America, with heavy concentration in urban centers, are some 211,000 church edifices—roughly, one to every 258 of the 54,576,000 church members, according to the last religious census (1926).<sup>1</sup> The overwhelming majority of these buildings and members represent the Christian tradition, and on the sabbath day an unknown number wend their way to the sanctuary for the weekly worship. It is difficult to appraise the results of this collective religious practice, but it seems reasonable to suppose that it does do considerable to generate idealism and unselfish service on the part of its participants.

Now the curious fact presents itself that America, which calls itself Christian, is the foremost capitalistic country in the world. Even its coins bear the motto, "In God We Trust," yet the Christian faith is largely antithetical to the capitalistic philosophy. It will be remembered that the philosophy of capitalism involves individual right to private property for power, individualism, the beneficence of competition, freedom of contract, and—most important of all—money purpose and self-interest.

#### DEFINITION

We have summarized the basic theories of capitalism in a previous chapter. Let us turn to an examination of Christianity. It is perhaps easier to define negatively.

Christianity is certainly not a mere label. Neither is it belonging to the church, important as that may be, nor even teaching in Sunday school, nor giving to charity. Christianity is not what goes by that term in many conventional churches. We might define it as Christlike lives of service and sacrifice for the common good. But again, a definition alone is unsatisfactory. Let us ask what are the basic theories underlying the good news of the gospel of Christ.

First, the infinite worth of human personality. Whether or not all would agree with this principle there can be no dispute about its corollary—that Christianity proclaims to the world that human values are infinitely superior to property values. Private property is dangerous when it divides personalities from one another. Jesus once cast out a demon from a man, sending it into a herd of swine with disastrous consequences to the latter. When the business men of that vicinity came upon the scene they were very much more impressed by the loss of property than they were by the saving of the man's personality, and they begged Jesus to leave their district. Whether or not one accepts this story literally, it illustrates beautifully the contrast between human and material values. Business men tend to retain a profit psychosis in all generations. England sees the threat to private property in Mr. Gandhi's campaign of love and has often arrested him. In the United States Eugene Debs was imprisoned for saying what President Wilson later admitted, that the World War arose out of selfish economic conflicts.

A second basic theory of Christianity is that we should not seek individual achievement for ourselves. "He that will be greatest among you must be the servant of all." He that saves his own life will lose it, and he that loses his life for the sake of others will save it. This is a far cry from the theory of individual achievement which is one of the basic dynamics of capitalism.

A third theory is that coöperation, not competition, is the law of life. We must not compete with others in order to surpass them in what we get; rather, we must coöperate in friendly brotherhood so that all may secure a more abundant life.

A fourth theory is perhaps more violently in contradiction to capitalism than any of the others. In diametric opposition to self-interest and money purpose, it proclaims service and sacrifice for the common good and for God. In other words it seeks, not the rule of gold, but the golden rule. Jesus said, "Seek ye first the Kingdom of God," which means, no matter what the interpretation, that the Christian must not seek first the piling up of money. The self-sacrificing love demanded in the Gospels seems antithetical to the profit system.

#### COROLLARY

If the theories I have sketched are in any measure valid, then there is a fundamental antagonism between the basic philosophy of capitalism and that of Jesus. It is, naturally, considered treason to the present economic order to make this claim, for most church members have a stereotyped picture of Christianity which is in harmony with capitalism. It is not intended to maintain that capitalism does not do some good. We see aspects of this good reflected in the churches themselves, in hospitals, and in some other humanitarian enterprises. No doubt capitalism in the past has promoted thrift, individual honesty, individual integrity, and self-reliance. "In conducting business for self-interest we may serve the public by giving them something they want. Otherwise people will not buy our products. In fact, therefore, in working for self-interest we are actually working for all." So the stereotype defense runs on *ad infinitum*. There are, however, eminent students of our social order who have sensed the inner conflict between capitalism and Christianity. One of our most distinguished historians, for example, James Truslow Adams, has said:

In making the business man the dominant and sole class in America, that country is making the experiment of resting her civilization on the

ideas of business men. The other classes, dominated by the business one, are rapidly conforming in their philosophy of life to it. Can a great civilization be built up or maintained upon the philosophy of the counting house and the sole basic idea of profit? <sup>2</sup>

Such a keen student of America as Siegfried depicts how our churches have unconsciously conformed to capitalism:

Their religion naturally pleases Christian capitalists only so long as they control it. They do not hesitate to reprove the leaders who attempt to put in practice the more revolutionary doctrines of the New Testament, for they maintain that the church should not meddle with problems which it does not understand and is not competent to solve. And immediately in my mind is forthcoming the thought that in America social reforms cannot be accomplished without funds. So we cannot logically conceive of a church which opposed the doctrines of capitalism without coming up against the ill-will of money. The mysticism of success is the genuine religion in America. Even the conception of Christ has to be adapted to fit the scheme of things. The American Christ is an efficient producer, almost a successful and honest business man. For materialism in America is the real power.<sup>3</sup>

Religious leaders make even more scathing statements. For example, Professor Richard Niebuhr says, "There is no effective religious movement among the disinherited today; as a result, they are simply outside the pale of organized Christianity."<sup>4</sup> The vicar of St. Martin's, H. R. L. Sheppard, says, "It seems too evident to need proof that little by little the infirmities of men have reduced the gospel of Christ from an adventure in living to the docile acceptance of traditional formulae."<sup>5</sup> Bishop Charles Fiske says, "America has become almost hopelessly enamored of a religion that is little more than a sanctified commercialism; it is hard in this day and this land to differentiate between religious aspiration and business prosperity. Our conception of God is that He is a sort of magnified Rotarian."<sup>6</sup>

It is small wonder that America should be thus characterized by a Hindu visitor:

I do not allude to the periodical paroxysms which overtake European nations, to the systematic immorality of their great cities, or to the occa-

sional lapses into government by terror among those races which are so unfortunate as to be subject to them. These things are sins of the passions, from which, however odious, few people can escape. What bewilders the observer is not the occasional aberrations of the Christian nations but their habitual conduct and organization, *not their failure but their standards of success*, not their omission to live up to right principles but their insistence that wrong principles are right. Your religion is a noble, if paradoxical creed, which affirms that all men are brothers, that humility and poverty are blessings, and riches a dangerous misfortune, that the way of service and self-sacrifice is the way of happiness. I do not blame you for not reproducing these theories in your practice; evidently they are esoteric and not meant for daily life. What surprises me, however, is that in your practice you erect into a system the duty and happiness of practising the exact opposite. The normal condition of your social order is an economic civil war, which you hardly trouble to conceal. . . . The normal canon by which you judge those who have deserved well of the commonwealth is how much money they have amassed, and to them you sell political power. Your creed is exalted, but your civilization is a nightmare of envy, hate, and all uncharitableness. I would forego the former in order to escape the latter, and I hope that my fellow countrymen will escape the contamination of Christian society in order that they may be able to retain some of their own not wholly unchristian virtues.<sup>7</sup>

If the underlying philosophic norms of capitalism which we have mentioned are at all valid, then Christianity is almost diametrically opposed to capitalism and the criticism of the Hindu scholar may not be entirely unfounded, even if exaggerated. Kirby Page recently wrote an entire volume<sup>8</sup> to show the contrast between the life and spirit of Jesus and conventional Christianity as it has been practiced. How does it happen that in our modern society we find Christianity and capitalism in harmonious and happy union? There is seldom a separation on the part of the respectable churches, much less a divorce.

#### WHY THE PARADOX

Weber declares that the explanation runs along these lines.<sup>9</sup> Once long ago capitalism was diametrically opposed to the then accepted and traditional code of both church and state. At that time the unrestrained desire for gain was considered both anti-

social and immoral. Even interest was prohibited. How, then, did capitalism become respectable and dominant? Protestantism created an environment so favorable to the development of capitalism that its rise was inevitable. Protestant religion taught men the business virtues of sobriety, honesty, and diligence, all indispensable to the business ethic. Weber cites Benjamin Franklin as one example. His "father dinned into him again and again in his youth, 'Seest thou a man diligent in his business? He shall stand before Kings.'" (Proverbs 22:29)

Weber takes up "Luther's conception of the Calling," Calvinism, Pietism, Methodism, and the Baptist sects, showing that the basic principles of each in turn have aided and abetted the rise of capitalism.

Luther laid emphasis on diligent labor in one's chosen profession as one expression of the law of love—"that the fulfillment of worldly duties is under all circumstances the only way to live acceptably to God."

Calvinism adopted predestination as one of its fundamental tenets, but the individual proved his election to salvation by his life. Success in business was one way of proving one's faith and justified "the active enterprise of bourgeois-capitalistic entrepreneurs." Capitalism thus became the legal tender for Calvinistic theology. Pietism, on the other hand, favored the virtues "of the faithful official, clerk, labourer, or domestic worker and the predominantly patriarchal employer with a pious condescension."

Methodism again laid down the doctrine that "one's achievement was the means of knowing one's state of grace." The Baptists were more mystical and rejected all connection with political rulers and their doings. Although politics was taboo, business was not debarred and soon the strict morality of the Baptists was turned in practice into the way of capitalism.

It can thus be seen that with the aid of religion capitalism soon had a moral justification. Instead of remaining enemies, the two thus became partners. One supplied the spiritual ethics and the other the monetary means of success.

It is conceivable, however, that the thesis of Weber may be



oversimplified. It is possible that Protestantism did not so much make a favorable soil for capitalism as that capitalism made a favorable climate for the adaptation of religion to capitalism. This thesis is also supported by the work of Robertson of England.<sup>10</sup> We know that in Russia, under the autocracy, religion became the tool and mainstay of the czar. In Germany it became the handmaiden of the kaiser. During the World War the church of every country supported its national government. Does it not seem likely that religious morality, except for a handful of prophets and martyrs, always tends to take on the color of the dominant and respectable majority of a given society?

The long history of the Christian church has been one constant struggle between adaptation to the dominant political and economic power and an effort to keep true to the inner heart of religious faith. Christianity inevitably, to some extent, ideologically reflects economic development. While Jesus, Paul, Augustine, Thomas Aquinas, Francis of Assisi, Luther, and Calvin are not simply products of the class struggle and the economic order, they were powerfully affected by it. Aquinas demanded that the Christian must use his property for the common good. In the Middle Ages it was the universal opinion in the church that in buying and selling a man should ask and give the just price. Interest was considered unethical. It is unnecessary here to retrace the material so ably presented by Troeltsch, Weber, Tawney, Harnack, and others. Modern scholarship has abundantly shown that Lutheranism and the various sects which sprang from it on the whole retired before the ethical issue of the secular order. Calvinism and the Puritan sects effected an ethical alliance with the capitalistic system. Calvin recognized the legitimacy of interest. Success became a testimony to the glory of God. Thrift, application to business, and austere self-control became virtues. Troeltsch, for instance, says, "Modern Protestantism is bound up with modern bourgeois society and with their ideals of civilization."<sup>11</sup>

What has happened has been an almost inevitable adaptation to the dominant power on the part of an institution. Institutions usually tend to become conservative, and, if they persist, to take

on the color of the existing economic system. The church, therefore, gradually became a corporation to perpetuate certain ceremonies and privileges. Social action was confined to such traditional fields as sexual morality, education, temperance, and charity. None of these conflicted with the dominant claims of capitalism. Bishop Gore's opinion, delivered in 1921, is probably still true: "The church as a whole, whether clerical or lay, remains, I fear, a body which as a whole the social reformer or the laboring man regards as something which is alien to his desires and aims."<sup>12</sup>

Richard Niebuhr, in a penetrating study on the social forces of denominationalism, concludes: "It remained for America to carry the accommodation of the faith to bourgeois psychology to its extremes."<sup>13</sup> He goes on to say that the common strand that runs through all our various churches has been "the adaptation of the early faith to the changing attitudes of the bourgeoisie."

Ellwood, in his survey of the history of the church, recognized that from the first Christianity compromised with pagan habits and modes of behavior and hence failed to accept the social teachings of Christ.<sup>14</sup> In America most of the leading business men and bankers are church members.<sup>15</sup>

#### PROFIT BEHIND THE PULPIT

The result of the sociological forces playing on the church has been an easy adaptation to the *status quo*, that is, capitalism. This is nowhere more clearly shown than in the control of church boards, in the sources of the gifts to the church, and in the places in which the church invests its money. In a sample study of 387 church boards of the leading Protestant denominations made in 1928, it was shown that 55 per cent of the board members were either proprietors, managers, or in some professional service.<sup>16</sup> Omitting the churches in towns under 5,000 population, the merchants were by far the most numerous class on the boards, with the clerks and bankers ranking on the average next. Of all church boards, including those in towns under 5,000, in proportion to their numbers the bankers were most often elected chairmen, while the manufacturers followed

next. In proportion to their total number on the boards the bankers were most favored with the chairmanship, the manufacturers being second. In spite of the representation of laborers and farmers, it must be recognized that on the whole the membership of the boards of churches is made up overwhelmingly of favored economic classes. Except in towns under 5,000 the great bulk of the population is not represented on the boards in proportion to their numbers in the community. The class character of the church board is clearly shown in the occupation of the chairman of the board. Often he is the dominant personality. The bias of a board may be revealed in its choice of a chairman. If we omit from the classifications the 71 ministers who are chairmen of their boards, the occupational ranking of the chairmen appears in the following tables:

Class	Number	Per cent
Proprietor .....	76	31
Professional .....	40	16
Managerial .....	30	12
Commercial .....	29	12
Clerical .....	11	5
Manual .....	31	13
Agricultural .....	26	11
Totals .....	243	100

Particular occupation	Number
Merchant .....	35
Farmer .....	26
Banker .....	21
Manufacturer .....	15
Lawyer .....	13
Physician .....	9
Laborer .....	6
Total .....	122

This indicates that the proprietors have nearly one-third of the chairmen while the managerial and commercial classes have an additional 24 per cent of the total. In other words, over half the chairmen of the church boards studied belong to one of these three business groups. When the professional class is included

this proportion reaches nearly three-fourths of the total. Therefore, to some degree, there is an interlocking control of the church by the same capitalistic interests which control business.

### THE TREASURY

The churches themselves are huge business enterprises. The total value of church property in New York, as put down by the tax assessors for purposes of exemption, is \$282,659,289. This does not include the taxable property of the churches—real estate, stocks, bonds, and cash waiting for investment.<sup>17</sup>

A single institution, Trinity Church in New York City, has real estate valued at \$15,000,000. She has an annual income from investments alone of nearly \$2,000,000. In New York (Manhattan) the value of the plants of all the Protestant churches averages \$900 a member. Christ Church has a plant valued at \$1,200,000, and since there are only 400 dues-paying members this equals \$3,000 per member. The average for St. Paul's Chapel, valued at \$5,000,000, comes to \$15,000. On the other hand, the Catholic Church, which reaches the poorer classes and whose membership standards are somewhat more loose, averages only \$65 per member, and this includes asylums, convents, club houses, hospitals, schools, and colleges.<sup>17</sup>

In the nation as a whole the total value of the 210,924 edifices reaches the staggering proportions of \$3,839,500,610, or an average of \$18,920. In the cities the average church edifice is valued at \$53,538; about 21 per cent have debts on the buildings to a total of over \$432,000,000.<sup>18</sup> Small wonder that Dr. W. C. Cavert, general secretary of the Presbyterian Board of Christian Education, says, "The church demands of the modern minister administrative ability as great as and of a type not unlike that demanded in large industrial and business enterprises."

Such studies as are available, which are admittedly fragmentary, show that the churches are similarly dependent on the upper middle class and wealthy group for their financial support. While there are some of the wealthy class who do not give to the church, a large number of religious institutions have one or more wealthy persons who contribute out of all proportion to

what the rank and file of the membership can do. This usually involves a conscious or unconscious acquiescence on the part of the minister to these dominant individuals.

The interlocking relationship of the church to the economic order is further shown in its investments. These investments, endowments, and surplus funds run up into hundreds of millions of dollars. They are rarely invested with any consideration of the ethical character of the enterprise, and the church thus has a tremendous stake in the profit system. For instance, the annuity fund for Congregational Ministers has large sums invested with the Fifth Avenue Bank, in the bonds of fifty-four different railroads, nine different governmental agencies, two different industries, and forty-three different public utilities. In addition it has stock in the American Telephone and Telegraph Company and in the General Electric Company, besides real-estate holdings. The welfare of the church is thus bound up financially with the welfare of capitalism.

#### THE CHOSEN

The result of this control by capitalistic groups, both directly and financially, has resulted in a pattern of behavior which does not on the whole offend capitalism. It would be expected that a church immersed in a capitalistic civilization, with a board made up largely of business leaders, would adopt in many respects business standards, and it does. When a new pastor is desired the effort is usually not made to find the most conscientious, spiritual, self-sacrificing, prophetic leader who will call the people from their sin, but rather a go-getter type with a pleasing personality, who can speak well and get in a good income. Dr. William Horace Day, a prominent clergyman in the Congregational Church, and head of the Home Mission Boards, says that when he is consulted by a church board regarding a minister's qualifications, "They always want to know if he can preach, if he is an able administrator, if his wife is a ten strip angel out of heaven, what salary he has had, whether he is a good mixer, but almost never am I asked if he is a genuinely devoted, unselfish Christian man." <sup>19</sup>

## PROTEST

While the pressure of the capitalistic environment tends to make the church conform, the pressure of the spirit and ideals of religion tend to make the church revolt against capitalism. This tension causes sincere, prophetic ministers to break away from the church or to take such action that they may be ousted from it. There are innumerable instances of this, from Norman Thomas, the Socialist Party candidate for the presidency, to A. J. Muste, who became a radical labor leader. Even Stalin of Russia was at one time in the theological seminary studying for the priesthood, but was expelled for reading Karl Marx. The idealism of the church and its inherent feeling that capitalism is questionable cause the adoption at religious conventions of social resolutions, sometimes even attacking capitalism itself. The Federal Council of Churches, for instance, adopted in 1932 the following rather weak declaration: "Practical application of the Christian principle of social well-being to the acquisition and use of wealth; subordination of the profit motive to the creative and coöperative spirit."

On the other hand, the Congregational and Christian Churches, meeting in 1934, asked for the overthrow of the present economic system, including the principles of private ownership which "depend for their existence upon the exploitation of one group by another, create industrial and civic strife, precipitate periods of unemployment and perpetuate insecurity and all the attendant miseries."<sup>20</sup> There is a strong tendency for such statements, social creeds, and social ideals to be adopted and then forgotten, although the Congregational and Christian Churches voted in 1934 to spend \$60,000 annually for social action.

## DILEMMA

Another way in which the idealism of religion expresses itself is in home and foreign missionary activity. It is sometimes possible to do far away what would be dangerous to attempt in the home country. The foreign mission movement has perhaps in many respects been in advance of the religious movement at the

home base. Its leaders have been more carefully selected. They are supposed to be the pick of the graduates from our theological seminaries. They are certainly, for the most part, men and women of great sincerity and devotion. Yet even on the foreign mission field there has been little fearless opposition to capitalism. The missionaries on the whole have fraternized with capitalistic elements. To some extent they may even have promoted capitalism and imperialism. Even today, if communism threatens China the Christian missionaries will for the most part vigorously oppose the evils of communism without as vigorously opposing capitalism. On the contrary they have acquiesced before it and in large measure supported it. The result is that they find great difficulty in answering the question of how they propose to abolish the poverty and injustice under the existing economic system.<sup>21</sup> In the past it has been notorious that where the missionary has gone, both imperialism and capitalism have tended to follow.

#### VOX DEI?

Another index of the interlocking alliance between religion and capitalism is the religious press. In order to ascertain the attitude of the religious press on major economic issues, the writer made investigation of some of the more important religious periodicals during all of 1924, in regard to the oil scandal. It will be remembered that Doheny had confessed on January 21 that he loaned \$100,000 to Fall. By the first of February, 1924, any minister who was reading the press could have known the truth—that bribery and corruption had taken place. Shortly afterwards both the secretary of the navy and the attorney-general of the United States were forced out of office. In the study of the press, the Roman Catholic weekly *America* seemed to be far ahead of most Protestant periodicals. As early as February 9 it carried an editorial concerning Fall and Doheny. *The Christian Advocate*, on the other hand, one of the most liberal Methodist periodicals, as late as March 20, said in an article headed *The Senate's Humiliation*, "It is a humiliating national scene to observe the great legislative body held up for hours at a time by such

irrelevant and misleading addresses as certain senators seem inclined to bore the people with." On April 3 there was an editorial on The Lessons of the Scandals which advocated the power of the Holy Spirit on the individual as the only defense. After this *The Christian Advocate* relapsed into a profound silence. *The Episcopal Recorder* of the Reformed Episcopal Church remained silent for the entire year. *The Churchman* (Episcopalian), while it had an occasional editorial denouncing the corruption, also took occasion on March 8 in Unbridled Tongues to attack Mr. Frank A. Vanderlip, who was aiding in exposing the corruption. *The Congregationalist* had no article which was indexed on the scandal except an editorial entitled National Resources without a Scandal, but this dealt with the perfectly safe topic of irrigation. It did run two short editorials on February 28 and again on March 27 which urged the condemnation and apprehension of those who were guilty. *The Christian Register*, on February 28, instead of attacking the corruption in Washington, attacked the reformers who were defaming others. However, on March 6 it had a fearless statement entitled Cleansing the Temple. *The Christian Herald*, as late as March 29, had an editorial on Prophets of Evil which said, among other things, "Heaven knows there may be matter enough with all of them [church, ministers, Washington, etc.] but why harp on it all the time?" After this effort *The Christian Herald* remained silent on the oil issue.

*The Continent*, a Presbyterian weekly, was too busy for the most part with the strife taking place within its own ranks between liberals and fundamentalists to have much space to spare for the nation's efforts, though it found time for several articles on English and Russian politics, and another on conditions in South America. The first notice of the scandals is in an editorial on March 13, entitled Conscience Is a Living Guard. It begins:

The revolt against corruption which has so powerfully stirred the popular mind in this country since revelations were made of certain suspicious deals in oil, witnesses cheerfully to the aliveness of conscience in America.



But it adds:

The real threat to the stability of American government just now is to be guarded against rather in the opposite direction. Temporarily—and only temporarily we trust—the public temper has grown so fierce against wrongdoers that it is willing to denounce with reckless precipitancy every individual against whom even gossipy insinuations have been thrown forth.

And on April 3, under the title Failed Grossly as Law Officer, it had this amazing comment:

In some respects the worst of all the staggering things shown up by the manifold investigations in Washington is the apparent fact that the Attorney General of the United States (along with certain other members of the cabinet, and perhaps even President Harding) watched the showing in Washington of a prize fight film that he (and they) knew to have been brought there in violation of federal law.

After this it subsides into complete silence though a few weeks later the cover design showed a picture of Christ driving out the money changers, and it ran articles on Courage for Christians and What Power Sincerity Imparts which kept at a safe distance from all controversial topics.

The only organ of the combined Protestant churches is the *Federal Council Bulletin*. In the March and April numbers was an article entitled Personal Religion and Public Righteousness, but this included nothing about government. In July and August there was an article entitled The Church in Political Affairs. It did not have one word about the national scandals, but did make the point that the church should never become involved in partisan politics. In the light of the fact that many newspapers throughout the country were vigorously attacking any one who denounced the oil scandals as taking part in partisan politics this is significant.

*Association Men*, the official organ of the Y.M.C.A. of the United States, was completely silent on oil for all of 1924. In February, however, an article appeared lauding the Colorado Fuel and Iron Company. Their workers had once been "wage slaves," now "their talk is of dividends and hours." In April there was an article on Better Days in Farm Lands and on Hit-

ting the Radio Trail. In June there was an article entitled Can Europe Hold Together? which analyzed the financial debauch of Europe. Then there was an article lauding the outdoor world, entitled Open Spaces and Deep Silences. In August there were articles on Walter Head, Financier, and on A Thousand Per Cent Efficiency. In September an article on Heart Beats of America contained no mention of the heart beats of those who were attempting to cleanse our national life, nor did the article in October entitled Citizenship Needs a Self-Starter refer to the scandal. It is possible to understand how some churches might be relatively silent on moral issues, since it is their theory that they should deal exclusively with things of the spirit, but the Y.M.C.A. prides itself on dealing with social and civic problems.

*The Christian Century*, from the beginning of the revelations, took a vigorous stand. On February 14 an editorial entitled The Background of Mr. Fall, discussing the somewhat dubious political past of the ex-secretary, remarks, "without exulting over the fate that has overtaken Mr. Fall, it is hard not to trace some connection between his present position and his former role in public life." A fortnight later, in an editorial entitled Normalcy at Washington, it declares that

... in the scandalous situation uncovered at Washington the nation is getting what it bargained for. It is inevitable that any slackening of purpose fairly to face new problems and fairly to solve them with high moral endeavor should be accompanied by a slump in official morality. The plea for normalcy which became the campaign cry upon which the present administration came into power, was a plea dictated primarily by moral fatigue.

On March 13 an article, Suppose It Were Russia, asks what Americans would be saying if the Washington corruption had happened in Moscow. It points out the incongruity of the United States' refusal to recognize Russia on moral grounds in the face of the corruption being uncovered in Washington.

An editorial on March 27 on American Political Morality warns its readers of the danger of missing the larger issues involved in the Washington scandals in considerations of individual guilt or innocence. "We need to see clearly that it presents

us with a choice: either we strike now to restore the standards of morality among public servants to their former heights, or we resign the republic to endless inner exploitation." More than once during the presidential campaign of the autumn it pointed out that if public life were to be cleansed of corruption, Christians must take a keener and more effective interest in public affairs and must make their influence felt.

While *The Outlook* is not primarily a religious paper, it was founded by an eminent Congregational minister. On February 20 it remarks:

In the investigations at Washington over the leasing of the naval oil reserves there is nothing more disheartening than the state of mind and attitude of the investigators. . . . By demanding without impeachment or any form of trial, without even a hearing, the resignations of Secretary Denby of the Navy, Congress has raised not only a constitutional question but also even a question of elementary fairness . . . the procedure is little less than political lynching.

On March 22, its Washington correspondent wrote, "Politics has practically driven constructive thought and the chance of constructive legislation out of sight." He fears also "that public confidence will be destroyed far beyond what is right by revelations" of things which "may look bad to inflamed minds but are actually blameless."

In the issue of April 2 the editors make this comment:

If either the oil or the Daugherty investigation seemed likely to lead to any real correction of evil, people would be more tolerant of what is going on now in Washington. Unfortunately the mass of hearsay and gossip is as likely to cover up evil as to expose it, and to serve, not the public interest, but the interest of partisan politicians.

Referring to the attack on Daugherty, *The Outlook* says:

The course of the Senate has been such as to bury truth in a mass of rumor and scandalmongering . . . the proceedings at Washington have brought as much discredit upon Congress as upon any branch of the government. The nation is sick and tired of Congressional snooping.

On April 16, there is an article by Mr. Frost, the Washington correspondent, entitled Capping the Mud Gusher, which expresses

relief that the political atmosphere is clearing, and that some of the inquiries are to be dropped. "The whole campaign was based on a calculation that the country had been so shocked into hysteria that it would accept suspicions, unfair and unfounded charges, even palpable lies, as real evidence, and on this basis would convict honest men, the whole administration, and the Republican party in general." The writer concludes, however, that "the scandals were well worth while," but hopes that they have "given lessons not only in honest government, which were badly needed, but in decency in politics, a thing almost as devoutly to be wished." Again, on October 1, the editors condemn the "pernicious nature of government by investigation," and remark: "This miserable mixture of statement by Means will serve a good purpose . . . if it calls forcibly to the attention of the people the danger of investigations such as the one conducted by Senator Wheeler."

On the whole, the religious press—although there were a few exceptional periodicals which attacked the corruption and bribery at Washington—remained discreetly silent or opposed the Senate investigators. If the church does not wish to antagonize wealth and on the whole does not wish to seem to be attacking capitalism, this would be the course to pursue.

Later a student in the writer's class made a study of the religious press for 1929 with a view to discovering what contribution religion had made in attempting to deal with economic maladjustments, especially its attitude toward capitalism. The percentage of material on economic issues was pathetically small, as can be seen from the following table:<sup>22</sup>

Topics	Percentage of Material on Topics						
	<i>America</i>	<i>Congre- gational- ist</i>	<i>Christian Register</i>	<i>Christian Advocate</i>	<i>Episcopal Recorder</i>	<i>Outlook</i>	<i>Christian Century</i>
Current events..	16.2	7.1	2.2	5.0	0.	20.1	27.3
Peace .....	1.1	1.7	.1	2.4	.4	3.3	8.3
Prohibition ....	2.6	1.3	1.3	.9	0.	1.7	1.5
Books .....	15.4	5.9	.08	5.1	0.	13.	10.3
Economic .....	4.4	1.4	1.1	.6	.7	3.5	3.5

It is obvious that we cannot assume that these particular periodicals are necessarily representative of the entire religious press. Nevertheless, it is significant that this group of periodicals, during the entire year 1929, contains hardly a hint at the basic cause of the financial crash which happened in this year. To be sure there are now and then a few lines denouncing the profit motivation, but these remarks are incidental to some particular subject in hand, such as murders, machines, etc. In spite of the terrific fall in the stock market, the growth of chronic unemployment, the exposure of graft and corruption in public utilities, and the increasing unrest of labor, we find little analytic insight into the basic, underlying causes of these phenomena.

The only articles which are definitely anticapitalistic, apparently, are two in *The Christian Century*. An editorial appearing June 6, 1929, said among other things:

Capital has been running business. . . . As the units of capital grow larger, a man's chances grow smaller. How can he get an effectual interest out of his savings in a line of work in which he is skillful? He cannot and he does not. His little money means nothing. That fact represents a terrible loss, not only in man's creative work but in his moral satisfaction and spiritual gratification. He loses his soul. . . . *No one is blamed for this condition. We are all parties to it.\** When we see it for what it is, hideous in its depredations upon all that is finest in ourselves, and likely to be more devastating to our children when they go down to the sullen places of labor, we must say and do something.

Another editorial in the same magazine, November 28, declared:

The economic world has been committed for ages to the theory that production is the main thing in prosperity. But the theory has failed again and again. It has failed because it considers the wrong things. It considers the producer, the owner; and it considers profits. Both of these factors are too limited. If it considered the purchaser, the consumer, and if it considered humanity, we should have an end of panics and of unemployment.

The only other article was one in *The Christian Century* on June 12, 1929, by Harry Ward, which declared:

\* Italics mine.

The other root of the matter besides this question of loyalty, is the fact that politics and parties, like almost everything else in a pecuniary society, are organized for profit. Political corruption is only another form of money-making, and in a time of so much unearned income it naturally increases and is tolerated. . . . Are they exposing the increasingly popular fallacy which says that if government protects money-making the social well-being will directly follow, but if the people seek consciously and directly to use government as an instrument to achieve the common welfare they can only fail? At this point, down underneath the concrete facts of political corruption religion faces a challenge concerning the ends of human existence and the creative capacities of mankind.

While this was all that attacked capitalism there were a number of articles which were procapitalistic. *The Congregationalist*, for instance, stated that capitalism was entering a new era through the diversity of stock ownership among the masses. *America* also had an article in defense of capitalism. Apparently there was hardly a single article in any of these magazines which took the capitalistic system for its subject with the aim of showing its evils and concluding that it must be either drastically reformed or else abandoned. There was not a single article which predicted the depression in its actual severity. *The Christian Century* was the only magazine that had the vision to denounce speculation as gambling.

To be sure, the religious press does criticize some evils individually. Each evil is located and some remedy is suggested but there is no attempt to diagnose the cause of the disease and the ultimate results to the organism, nor is there any suggestion as to some ultimate plan for bringing the patient back to health. These two studies seem to show that the religious press as a whole has failed in being prophetic. It has, too, unconsciously accepted the bourgeois attitude of reform. It is precisely the same attitude which the church for the most part accepted at one time in regard to slavery. The religious press has not yet sensed the fact that capitalism may have inherent evils which are organic and cannot be changed without a change of the system. In the end some of the religious press finally began to sense this about slavery;

it seems probable that some of the press in the future will begin to see that capitalism must also go.

### FALSE GODS

A social upheaval such as a world war reveals in clear photographic nakedness the dependence of the church on the social order of which it is a part. Here one can see how difficult it is for the minister of Christ to stand out against the tidal wave of public opinion. Religious beliefs and practices echo the established order; they are intricately woven into the very fabric of society as it is.

Dr. R. H. Abrams has given an unanswerable picture in his volume, "Preachers Present Arms." He shows the appalling record of chauvinism and militarism during the World War in every religious faith. The book is thoroughly documented and proves its case. A few of the titles of chapters are themselves expressive: The Holy War; The Church as Servant of the State; The Churches Contribute to War-Time Hysteria. Dr. Abrams concludes from this study that there is intimate relationship between religion and capitalism.

Our society based upon book-keeping economy and the sacred right of private profits has been blessed and upheld by the churches as well as by the bankers and big business. . . . Being part and parcel of the whole acquisitive society, it was inevitable that, during the war, the churches should have conformed in their judgment and should have been controlled by the will of the vested interests.<sup>23</sup>

In other words, the study shows that the churches in large measure quite sincerely served the god of nationalism and the god of materialism without realizing that they were worshipping false gods at all. In the First Baptist Church of New London, Connecticut, for instance, the pastor preached regularly in uniform, with a machine gun on one side and an American flag on the other.<sup>24</sup> No wonder that such an astute historian as Professor Hayes of Columbia observes, "It is manifest to us who live in the West that Christianity for an enormous number of people has become an adjunct to Nationalism."<sup>25</sup>

Another conclusion of Dr. Abrams was that in the war situation religious people behaved no differently from others. Although claiming to be followers of Jesus or Jeremiah, actually they took the statements of the national administration and transformed them into judgments of God. Dr. Abrams believes that the church was just as susceptible to mob psychology as any other group and that if a random sample of religious leadership were taken the action pattern would be no different.

The writer is inclined to question this verdict, for if one included all the religious conscientious objectors, including denominations such as the Quakers, it seems probable that there would be a slightly higher opposition to war among religious folk than the average. In the whole country the difference would be infinitesimal. It seems reasonably clear, however, that some of the clergy did repent their action earlier than the average citizen. Three years after the war was over the editor of *The Churchman* confessed, "We [the churches] hated as our governments bade us hate. We spread lies about our enemies as these lies were meted out to us in official propaganda. We taught unforgiveness even as our rulers and diplomats inspired us to do."<sup>26</sup>

In 1934 Kirby Page sent out a questionnaire to about 100,000 Protestant ministers and Jewish rabbis.<sup>27</sup> Answers were received from 20,870, and of these 89 per cent were willing to have their replies on war made public and 87 per cent were willing to have their names used on economic issues. It must be remembered that the replies may not be representative of the clergy of the country; they went to only twelve Protestant religious denominations. Presumably the conservatives did not answer to as great an extent as the liberals. Nevertheless, it is significant that nearly 13,000 said they would not participate as armed combatants in a future war. However, only 8,000 were prepared not to serve as chaplains, and only 8,813 were willing to say that they would not serve in a war of defense. The latter figure must, therefore, be taken as the more accurate. This means that only about 44 per cent of those replying were unwilling to fight. Of the total, just over a quarter disapproved of capitalism and favored socialism. It must be remembered that these are "opinion"



or "attitude" answers only; it does not mean, necessarily, that the clergymen who responded would be willing publicly to oppose war in time of conflict or publicly champion socialism today.

### THE SHEPHERDS

Additional light is thrown on the Protestant ministers by the four-volume study of "The Education of American Ministers" by William Adams Brown, Mark A. May, and Frank K. Shuttleworth.<sup>28</sup> The study clearly shows that the minister himself is to some extent a pawn in the hands of the economic and social forces of the community. The growth and decline of church membership are more the result of population trends and sociological factors than of what the minister does. This verdict might not hold good if the minister spent a good share of his time dealing with the political, economic, and social forces of the community. Unfortunately, however, he does not. On the contrary, he carries on conventional religious tasks, and his success is somewhat dependent on the sociological forces at work in his community; naturally, both ministers and members are willing tools of a system which they scarcely question. The standard by which the ordinary congregation appraises the minister is usually identified with the maintenance of the *status quo*. Among church committees who are seeking a new pastor the desire for a prophet of social righteousness is conspicuous by its absence.

From the interviews with the ministers in this study it seemed evident that with at least 75 per cent of them the present condition of community life is accepted as inevitable. Apparently the ministers give minimum attention to the *causes* of poverty or social maladjustment; their interests are in "feeding the poor" and "visiting the fatherless and widows in their affliction."

Less than one-fourth of the ministers make *any* of the following activities a regular part of their work: community chest drive or general charity work; work on hospital committees or service to hospitals; help with visiting nurses' associations, parent-teacher associations or committee work for same; help in coöperative marketing or other forms of activities affecting rural-urban conflicts; community conflicts or labor troubles; community surveys or research; public library committee work; work

with settlements or social service agencies; and helping in political campaigns or political reforms.

Out of 225 white Protestant ministers in Chicago, only two placed civic and community activity as higher than fourth place in their evaluation of an action program.

As far as the rural ministers are concerned, their laymen consider them as dispensers of a religion which is separate from "worldly affairs" or as promoters of the *status quo*.

Of the personnel of the boards of fifty theological seminaries, 7 per cent are bankers, 6 per cent are educators, 13 per cent belong to other professions, and 19.5 per cent are business men. If we do not count the educators, this means 40 per cent of the board membership of these seminaries is composed of the business interests or their professional associates.

In a study for a doctor's dissertation at Chicago, Jacobs made a case study of the Protestant ministers in that city. His conclusion was that the attempt to apply the teachings of Jesus to contemporary social problems receives only marginal attention. "The ministers, with few exceptions, are upholders of the *status quo*." <sup>29</sup>

#### IMPORTANT BUSINESS

On the whole, an impartial analysis of such data at present available seems to indicate, first, that the cumulative effect through the years of the influence of the *status quo* and the vested interests has tended to make the clergy avoid radical social action and concentrate more attention on theoretical beliefs. Professor Schaff, in his massive three-volume work on the "Creeds of Christendom," presents concrete evidence regarding the terrific amount of energy which has been spent by church leaders on fine points of theology and the relatively almost total neglect of social ethics and social action. Hundreds of pages are devoted to such subjects as the trinity, sacraments, and ecclesiastical orders. Almost nothing is written about the brotherhood of man, the duty of love, the sin of the private-profit motivation and selfish profit accumulation, or even about the Christian necessity of taking one's cross and following Jesus. The duty

of translating faith into the action pattern of the community is almost unnoticed. Even when ministers take action they prefer something that will not antagonize the dominant capitalistic interests. This was well illustrated a few years ago when Professor Webber of Union Theological Seminary tried to get the ministers of a Pennsylvania community to pass a resolution urging that the miners should have the right to put in a check weighman of their own to see that they received an honest weight for the coal they had mined. The ministers refused to take this action but spent considerable time passing a resolution against the right of the miners to play baseball on Sunday. The fact is that even today pioneers for a new social order frequently find ministers opposing them.

#### MINOR TRUTHS

In the second place, capitalism has probably aided in keeping the liturgy of worship largely individualistic and "safe." At the Hall of Religion at the World's Fair in Chicago, on the invitation of the manager and in consultation with Catholic and Jewish leaders, the writer prepared the following series of mottoes to be hung on the wall:

#### PROPHETIC VOICES OF RELIGION

What doth the Lord require of thee, but to do justly, and to love mercy and to walk humbly with thy God?—*Micah*.

For it is easier for a camel to go through a needle's eye than for a rich man to enter into the Kingdom of Heaven.—*Jesus Christ*.

Opulence is theft, if not committed by the immediate possessor, then by his predecessor.—*St. Jerome*.

With criminal injustice they denied the innate right of joining associations to those who needed them most for self-protection against oppression by the more powerful.—*Pius XI*.

Oppression and exploitation are sacrilege and blasphemy. They thwart life—God's life in man.—*Rabbi Silver*.

As might be expected, they were barred even though the offer was made to eliminate any one quotation. Few ministers would consider placing a motto on their church wall, even from such

a sacred authority as St. Jerome, if it used such radical words as given above. It would seem sacrilegious to the average board of a religious church to have such a motto on the wall. Besides, it might antagonize some member of the church who was opulent! It is small wonder that the president of the National Association of Manufacturers, John E. Edgerton, addressing his fellow Methodists, should say:

I am proud to say that the morning-prayer exercises in my factory have had the finest economic effect. Workers are producing far more goods than before the prayer system was started some years ago. We have made it almost impossible for anyone but a Christian to get a job. We examine applicants for work to see if they have any dangerous ideas. We have been able by that process to keep our plant free of trouble.<sup>30</sup>

\* THE FIELD

In the third place, the interlocking control of religion and capitalism has resulted in a tendency of the church to move away from the areas of social need. In the admirable Springfield Church Survey, conducted by the Institute of Social and Religious Research, it was found that Protestantism "showed marked aversion to the areas of greatest social need."<sup>31</sup> In its conclusion the survey states that the darkest interpretation which can be put on their findings shows:

... Protestantism in Springfield to be an organized religious movement of doubtful success, with incoherent and ineffective units working with poor command of the facts and deficient in the moral qualities that lie under institutional strength; that the churches are illogically related to the city geographically, having only one common principle consistently followed, namely to get as far off as possible from the socially undesirable areas.

It goes on to say that the "best interpretation which the survey can put upon the situation is that Springfield Protestantism has a fighting chance." That these findings are not true of Springfield alone the study of St. Louis and other centers has abundantly shown. The Department of Research and Education of the Federal Council of Churches, in its volume on "The Social Work of

the Churches,"<sup>32</sup> further confirms these findings for the church in general, stating that when churches move from an area of social need to a suburban area "they tend to become comfortable family affairs with an unnaturally restricted fellowship; they foster a respectable non-militant, non-missionary, often anti-social type of religion."

#### THE FLOCKS

David Carl Colony, one of the ministers of St. Elizabeth's Episcopal Church in Philadelphia and a teacher at the Haverford School, made an analysis of one of the leading eastern dioceses of the Episcopal Church during 1932. He found the revenue from the independent parishes was \$3,000,000. Salaries took over one-fourth of this and amounted to an average of \$50 a week for the 282 priests. Actually, this average is probably deceptive since some of them were retired or employed in secular work, so that he estimates the active priests were getting at least \$75 a week. Nearly \$300,000 went for music, which he describes in these words: "Expensive voices are hired, fine organists are engaged not in order to worship God in greater beauty but to attract the 'customers' from neighboring parishes."<sup>33</sup> Very little of the money goes to the poor: out of the \$3,000,000 total only some \$55,000 (close to 2 per cent) goes to work for the poor, and of this scant amount 11 out of the 118 parishes provided about one-half. In an era of depression the poor man is left to get his expenses where he can—from loan companies charging 42 per cent, for instance! One of these companies said, "We are proud of our record of thirty-eight years. An investigation of the names of our stockholders would make any man proud to be honored by their acquaintance, as they include Episcopal clergymen of the highest standing."<sup>34</sup>

#### THE TEMPLES

In the fourth place, since capitalistic standards are materialistic, the tendency is for even the church to judge itself in terms of buildings and salaries. This has resulted in an absorption in its own mechanism and organization to the neglect of the community. Dr. Halford Luccock quotes the famous song of Bishop

McCabe, sung all over the country, which celebrates the building-promotion campaigns for churches:

A new church greets the morning's flame,  
Another evening's ray.  
All hail the power of Jesus' name,  
We're building two a day.<sup>35</sup>

In one case, a wealthy man, wanting "his name perpetuated in stone, failing in good works," left money to build a church for himself. The canon law required the bishop to ask permission from the neighboring parishes. They were all opposed, but the church was built just the same and the painting of the donor, brilliantly illuminated, hangs just opposite the altar. The result is that there are now two struggling parishes where one was needed.<sup>36</sup>

Actually, churches all over the country became so absorbed in building that, when prosperity crashed, their future usefulness was mortgaged and in the hands of business interests. So persuasive was this spirit that even some of the liberal ministers who were opposed to capitalism found themselves caught with the rest. One who had his church building entirely paid for, with no mortgage, lost all his property because he had tried to sell it and build a larger church, giving a first mortgage to business interests. Even Dr. Harry Emerson Fosdick's Riverside Church had to spend, during the year 1933-1934: for its "business offices," \$27,025; for music, \$31,950, for "ministerial staff secretaries," \$9,750; for advertising, water tax, and insurance, \$10,000; and for "building maintenance and operation," \$77,660; a total of \$156,385. This does not include the salaries and expenses of the ministerial staff and other items, which run the total expenses for church support up to \$214,000. Here, then, is one of the outstanding effective religious leaders of our generation whose church is dependent on the capitalistic system for support to the extent of nearly a quarter of a million dollars annually.<sup>37</sup>

The extremes to which the desire for large buildings went can be seen from the instance, quoted by Bowie, of a prominent

churchman who tells his canvassers how to get funds for building a cathedral:

Go to the men who command great wealth either in their own right or in trust funds which they administer. Tell them that the cathedral and the presence of the religion which it symbolizes is the guarantee of the continuance of the social order on which their prosperity depends. Tell them that religion is the insurance of their prosperity and ask them whether they think they are paying enough for their insurance.<sup>38</sup>

#### THE COMMANDMENTS

Finally, the result of the interlocking control of religion by capitalistic interests has been that the ethical standards of the Christian community have largely conformed to the ethical standards of capitalism. The church has preached the individualistic ethics of thrift, honesty, purity, and charity. It has kept itself free from social economic doctrines and policies that would be unpopular among its prominent supporters. The older standards of asceticism have disappeared. This is true not alone of the United States but of churches throughout the world. Sir Josiah Stamp, speaking to Christian reformers as a Christian, declares: "I would say whatever is economically right (i.e. inevitable) cannot be morally wrong; for where there is no choice or avoidance there is no moral issue." In other words, he directs his argument against the theory that there is now an unjust distribution of wealth. The church, to be sure, has urged the necessity of the right use of wealth. It has not as yet questioned whether wealth itself may not be evil and it has been cautious about asking too many questions about the methods of acquisition of wealth. For instance, Professor Peabody says the fundamental evils of industrialism are not mechanical but ethical, not primarily of the social order, but of the socialized soul. "No rearrangement of production and distribution can of itself abolish the commercial instincts of ambition and competition, not even the baser desires of theft, covetousness and deceit." This is typical of religious thinking, which assumes that mechanical changes of production and distribution cannot affect the ethics of the individual. The logical implication is that the churches should

keep clear of reforms of industry and apply themselves to changing the individual soul.

It is, of course, preposterous to assume that mere efforts to change the individual can revolutionize the social order. This involves both a change of the system and the change of the individual, and each reacts on the other. The fact is, the average church preaches a religion of good form. So far as the church does take action it tries merely to ameliorate conditions, not fundamentally revolutionize and eliminate the basic evils. In the large it does not hit the greatest evil of all, capitalism. Harry F. Ward, professor in Union Theological Seminary, says of the church's relationship to capitalism that it is "bone of its bone and blood of its blood."

#### MINISTERIAL SALESMEN

How easily the church itself becomes embroiled in the capitalistic enterprise can be seen from the Goodwin Plan. This is a modern advertising and sales device promoted by some Chicago business men. They induce ministers and churches to agree to purchase products listed and approved by the corporation. A particular church receives two per cent of the retail price of any approved article if the purchaser belongs to that church. Although *The Christian Century* vigorously opposed the plan, over 250,000 church members agreed to support it. In fact, it is surprising how many socially minded religious leaders were swept into endorsing it. Father Ryan of the Catholic University of Washington, for example, says in a telegram which has been broadcast by the Goodwin Corporation: "I accept with pleasure your invitation to act as a member of your Board of Arbitration for Social Justice. Your program is eminently fair to employer, employee and consumer. A progressive and important step toward restoring purchasing power to the mass market on a fair and effective basis. Congratulations." Dr. Ernest F. Tittle, the outstanding pastor of the First Methodist Church of Evanston, at first enthusiastically endorsed the plan but after further study and investigation withdrew all support from it. Bishop McConnell insists that all he did was to agree to serve as an arbitrator in case of an indus-



trial dispute, without any endorsement of the Goodwin Plan as such. In spite of this his name has been printed by the tens of thousands and implies approval to the public. Ralph W. Sockman, of Christ Church of New York, at first wrote, "The Goodwin Plan will be a providential assistance at this particular time in the finances of many a parish. We are expecting to make use of it in our new Christ Church." Later, however, after further consideration, he repudiated it. The fact is that the plan was just an effort to commercialize the churches and enlist pastors and church members in a sales campaign, with little or no compensation.

#### RELIGIOUS EDUCATION

Another tragic failure of the church is in its religious education program. No money or too little is expended on this department of the church's effort and what is spent fails to orient the student in the moral and ethical social problems of our age. The implications of the parable of the good Samaritan for modern industry and the ethics of capitalism are rarely studied. To the extent that consideration is given to economic law it is frequently to bolster up capitalism. As far back as 1850 the Society for the Promotion of Christian Knowledge in London circulated a pamphlet on "Easy Lessons on Money Matters for the Use of Young People," which gave this teaching: "It is curious to observe how, through the wise and beneficent arrangements of Providence, men thus do the greatest service to the public when they are thinking of nothing but their own gain."

One of the students in the Yale Divinity School in 1926 wrote his thesis evaluating the social teachings in the International Graded Lessons of the Sunday School for the Senior High School.<sup>30</sup> He found that "practically all of the lessons are treated from the individual's point of view, the social outlook being practically disregarded." In the pupil's books, for instance, he found no direct teaching on "property," "profits," "industrial democracy," "business relations," or "child labor."

Recent research works in the field of religious education have been the notable studies made by and in coöperation with Dr.

Hugh Hartshorne.<sup>40</sup> He shows that this education is largely of the transmissive type. A Sunday school class was rarely led "to think of the work of the school as having a meaning for everyday life and conduct."<sup>41</sup> The most conspicuous failure of these schools was that there was no real attempt made to find out the needs of the pupils in the home and the community and fit the program to that; the studies found that there was an isolation of the church from the community. There was "only slight effort to get acquainted with and meet community needs."

How far this tragic condition may be accentuated by the capitalistic milieu in which the churches are immersed is unknown. It seems probable that the whole individualistic, capitalistic environment does play a part in this result.

That there is a rather close connection between religious education and capitalism was clearly revealed in 1934, when Dr. Hugh S. Magill, general secretary of the International Council of Religious Education, accepted the presidency of the American Federation of Utility Investors, Inc., of Chicago, a paid position, while retaining his paid position with the International Council. The result was that the Religion and Labor Foundation wrote a letter to all his board, protesting. Soon certain religious periodicals were calling for his resignation. Dr. Magill had been secretary of the council since 1922, representing thirty-six denominations in the United States and Canada, yet he saw nothing inappropriate in his accepting this paid utility position without getting the consent of his religious board. It is to the credit of some of the religious denominations that they protested so vigorously that Dr. Magill finally resigned from his paid public-utility position but remained on the executive committee. In the end no man can serve two masters, and Dr. Magill resigned the religious position to become president of the American Federation of Utility Investors, giving the following reasons:

1. That the New Deal is a threat against the holdings of 10,000,000 investors in utilities securities.
2. Because Christians are obligated to protect their own and their institutions' honest investments.<sup>42</sup>

It would be possible to show considerable subservience on the part of some religious leaders to capitalism, particularly when efforts to secure financial support are being made. This does not necessarily imply insincerity but only that religious leaders show that they are sympathetic to the motives and aims of capitalists—against radicals and trade unions, for instance.

#### SERVING TWO MASTERS

The following extracts from letters given the writer by a religious worker and written by the head of a religious enterprise in Gary, Indiana, speak for themselves. The first letter is to the general manager of the Illinois Steel Company at Gary and encloses the second letter.

In my talk with Mr. Wirt which followed immediately after Mrs. Pinchot's talk in Gary, I asked him what we could do to stem the tide. He had nothing to suggest. . . . Each of us is faced with the same problem—lack of funds to procure teachers, speakers, and class rooms. Has your company set up any machinery to offset the inroads being made by the enemy? If it has, and if there is anything I could personally or our institution could do, we would be happy to coöperate with you in the promotion of any constructive plan to stem the current of insidious propaganda that is being promoted in Gary.

The second letter was dated November 10, 1933, and was addressed to the president of the board of directors of the Illinois Steel Company and was signed by the vice chairman of the board of directors of the religious agency. It begins by saying:

The executive committee has authorized me to place before you the record of our past years of service . . . and to earnestly request your favorable consideration in making your annual contribution to the support of our institution.

A paragraph on the second page reads:

It is needless for me to mention to you the very serious situation here in our city with regard to the alarming activities of the Unions to organize your employees. Last evening's paper carried news items and advertisements of their activities. I am sure that you are in very close touch with

it, but we wish to assure you that we shall do everything possible to aid the residents of Gary to keep right attitudes toward your Company and to point out to those with whom we contact the real interest the United States Steel Company has always taken in Gary as a city and in the personal welfare of their workmen in particular. I feel that a crisis is imminent between the labor interests and the employers of labor throughout the entire nation and here in Gary we must do our part to stand squarely behind the best interest of the Steel Company, without which you and I know there will be no Gary.

The letter closed with these words:

Trusting that the present seemingly alarming industrial conditions will not prove a hindrance to the progress and prosperity of the future of your Corporation, I am, Most cordially yours.

Needless to say, the sequel to these letters was a reply from the corporation enclosing a check for \$500.

It so happens that one of the workers in this religious enterprise had dared to speak somewhat tolerantly of trade unions. The result was a letter from an official of the national board of the church which said, among other things:

In these days of intense feeling, I feel that there is one point where we need to be exceedingly careful, that is, that we avoid taking sides in controversial economic questions. In our work we are in the midst of those who are on the under side, to minister to their spiritual and social needs. In Gary, especially, we are in a very strategic position, as between two great forces, Capital and Labor. Many are taking the attitude that they are incurably opposed to each other. I believe that the best elements of both sides are more willing and anxious to be in harmony than many agitators represent. . . . Most of the worst racketeering is under the guise of Labor Unions. We as workers in a Christian [enterprise] cannot solve these great problems, and by taking sides in our talk or teaching we might seriously hinder the work which we are there to do, and which we are doing. I believe that it would be a great loss to the Gary community if we should have to close our work.

I would not for a moment try to dictate to any one of our workers as to his or her individual thinking, but I am asking that we keep always in mind the larger work, and that we must see society as a whole. I think

here may be a place to apply Jesus' word, "Render unto Caesar the things that are Caesar's. . . ."

I hope that I have a little share with you as I stand in the background with my love and interest and prayers. I pray that you may be "wise as serpents and harmless as doves."

These letters may all show the sincerity and conviction of the writers, but they also show definitely the molding influence of capitalism. Social pressure is being exerted through the religious agency on behalf of the corporation and its scale of values.

The fact that capitalists take part in or give for religious purposes may mean very little as to their personal moral and spiritual lives. Colonel Humphries, who gave the Y.W.C.A. building at Western College in Ohio, later committed suicide in connection with the oil scandal.

#### FUMBLING AND FINISHING

So strong are the forces of business life that ministers often fear to take aggressive action. Not long ago the ministers of New Haven decided to evaluate in advance the moving pictures which were to be shown at the New Haven theaters. They proposed to advertise each week in the local newspapers their recommendations. The press, however, refused to accept the paid advertising. No real attempt was then made to force the newspapers to print this advertising by bringing social pressure to bear on them. The result of the growing power of capitalism has possibly been that the church has gradually become more impotent in effecting change than it was in the past. Yet it must not be forgotten that when the Catholic Church finally took action on the moving-picture question through its Legion of Decency it did make the moving-picture interests recoil—for how long only the future can tell.

#### REPRESENTATIVE RELIGION

The Lynds' study of Muncie, Indiana, in "Middletown," seems to show that in that city the effort was made by the ministers to make "sermons gear in with the dominant values of the city." The evidence seemed to indicate that the churches were losing

their grip on the young people as contrasted with an earlier period, thirty-five years ago. Apparently the method of dealing with young people today is much the same as that in 1890. "Let all come and contribute a word or verse or something." The five forms of religious observance, Sunday morning and evening preaching services, Sunday school, midweek prayer meeting, Sunday evening young people's meeting, remain, according to the authors of this study "fundamentally unchanged since the 90's." After their careful survey the authors conclude: "Middletown is building its religion in its own image. There is a tendency to appraise the fruits of religion by the same tangible, material measurements which it applies to its other activities."<sup>43</sup> Among others, it cites the following concrete evidence:

When the high school Bearcats were playing for the state basket-ball championship, those unable to attend the game assembled in the high school auditorium to hear the returns. A minister conducted the meeting, opening it with prayer, and as the tension grew during the game, a senior class officer prayed, "Oh, God, we must win. Jesus, wilt thou help us!"

In reporting "the most successful year from every standpoint" in the history of a Middletown church, the press says: "The reports showed the church to be in good financial standing with a good balance in the treasury, to have a building fund of —, to have had a net increase of membership of —, to have had an average attendance of — in the Sunday School, and to have paid into missions the sum of —."

A prominent minister urged the claims of the church prior to Go-to-Church Sunday by the following practical appeal directly to the pocket: "The church is the reason why of America. . . . The church has made America prosperous. . . . It is no mere happening that church people become well to do. 'Godliness is profitable' even from a business standpoint. . . . Coöperation with the church program is the greatest contribution any man can make to his community."<sup>44</sup>

The religious leaders of Muncie do not raise many of the community problems confronting the citizens; they are assured "that their city, their state and their country are, if not perfect, at least the best in the world. That it is they who make them so, and that if they but continue in their present vigorous course progress is assured."

In his recent penetrating study<sup>45</sup> Dr. Morrison, editor of *The Christian Century*, shows the great weakness of religion in America. It is conforming to the conventional codes of society. It thus inevitably becomes the bulwark of the privileged interests entrenched in the existing order. Dr. Morrison goes on to say, "It is slowly dawning upon us that Christianity has been used for this purpose ever since it became the religion of the Roman state under Constantine."<sup>46</sup> Again he says, "So far as its ethics are considered the church is hardly more than an evangelist subsidized by secular society to help hold individual men and women up to secular standards."<sup>47</sup>

#### SUMMARY

It is obvious from the evidence presented that religion is unconsciously working in close alliance with capitalism. While there is some conscious pressure by capitalists on church boards, the more insidious and widespread dependence of religion on capitalism is largely an unconscious process, rooted in the very nature of the church as a business enterprise and in the attitudes of its leaders—attitudes which have not been seriously criticized by themselves or by others. As Bishop Charles Fiske says:

The city parish is a huge financial enterprise, the men who support it are identified with the world of industry and finance, and it would be difficult to decide to how large an extent economic determinism may mold the thought, influence the preaching, and unconsciously regulate the practise of the spiritual leaders of large and important congregations.<sup>48</sup>

In Russia under the czar there was a controlled religion—the handmaiden of the autocracy—largely divorced from social action. No wonder the Russian leaders said, "Religion acts as a bandage over the eyes of man, preventing him from seeing the world as it is. It is our task to tear off this bandage."<sup>49</sup>

In America capitalism takes the place of the czar's autocracy in exerting an interlocking control over religion. This is not to say that religion has not rendered service—it aids individuals to be honest, chaste, thrifty, kindly, and generous, and it holds aloft general ethical and spiritual standards. It does not, however,

prevent its members from remaining acquiescent in supporting the existing economic order. In appraising the total effect of the church we must not forget that there is a minority of radicals, prophets, and revolutionists whom the church has first nurtured and then sometimes cast out. Nevertheless, apparently, one of the products of the capitalistic system is a religion which in the main supports that system. As one of the leading ministers in Rochester said, after hearing an address which urged the church to oppose capitalism, "Such an address is no more practical than baying at the moon. After all, those who control and support our churches are the beneficiaries and creators of capitalism."



## CHAPTER XX

### A SUBSIDIZED STATE

WHEN our Constitution was established it was necessary to meet the needs of only 3,000,000 people in thirteen states along the Atlantic seaboard. Although, as Professor Beard has shown, the Constitution was powerfully influenced by the propertied interests, it functioned reasonably well. In the lowest unit, the town meeting, most of the people knew each other. Since those early days we have changed into a country of 130,000,000 people, scattered in forty-eight states stretching from the Atlantic to the Pacific. In addition there are territories such as Alaska and the Hawaiian Islands.

In the early days there was tremendous incentive for the most able leaders in the community to go into the political life. Today many potential statesmen have become executives of great corporations or leaders in commerce. No longer does geographical representation so adequately fill the needs of the population. The units are so large that it becomes difficult for the average citizen to know the merits of the candidates for whom he votes. In spite of this, our political system has been a great advance over monarchy. It has permitted each individual citizen to cast his vote, and in theory the most humble citizen ranks with the most powerful as far as his one vote is concerned. To be sure, the Negro is for all practical purposes barred in many southern states, and there is a property qualification in fourteen states and a literacy test in nineteen. The system has brought about great changes, oftentimes against the interests of a part of capital. Such reforms as the Interstate Commerce Commission, regulation of railroads, federal income tax, the direct election of senators, and woman suffrage are all ideas which were bitterly assailed

by the leading parties at first, but were later accepted by them and incorporated into law.

### MYTHS

Nevertheless it must be recognized that the American public has to some extent accepted myths instead of facts about its government. Such expressions as "The equality of all citizens before the law," "That government is best which governs least," "Political parties are groups of voters who think alike and have a common program," "Government rests on the consent of the governed"—all of these are of somewhat doubtful validity. Indeed, a former president of the United States Chamber of Commerce carried one of these theories to its logical conclusion by declaring, "The best public servant is the worst one. . . . A thoroughly first-rate man in public service is corrosive. He eats holes in our liberties. The better he is and the longer he stays, the greater is the danger."<sup>1</sup> Under a *laissez faire* economy the business interests stoutly maintained that they did not want government interference (although this did not apply to such matters as the tariff, of course) but humorously enough, after the depression, all demanded interference and assistance as a right.

Again, consider the widely accepted slogan that "government rests on the consent of the governed." According to the census of 1920 there were 50,000,000 individuals of voting age. Only 26,000,000 went to the polls, and the successful candidate for the presidency received only 30 per cent of the votes of those legally qualified to cast their ballots—actually only 15 per cent of the total population. Usually the part of the total population which controls an election is less than 10 per cent. Moreover, large numbers of our population vote because of tradition, propaganda, and inherited patterns of thought. Except in periods of great economic depression a child coming of age will usually vote the way his parents have voted. In other words, the child of a Republican will vote the Republican ticket for the same reason that he wears buttons on the sleeve of his coat. This is clearly shown statistically by the fact that until 1932 ten southern states have,

with the exception of 1928, always voted Democratic in every election since 1880; while, on the other hand, ten northern states have always been Republican since 1892. Out of a total of 433 congressional districts in the United States, 316 have in the past been either safely Republican or safely Democratic.<sup>2</sup> Moreover, it is a delusion to suppose that a political overturn changes economic power; that remains where it was.

#### FAIRNESS

It has sometimes been thought that the government stands above conflicting interests. It is assumed that in a democracy the majority vote will decide between conflicts and compel special interests to accept policies which are to the public advantage. This is more illusory than real. Government does not stand outside the conflict; it is part of it. Its officials are related to groups in society and it cannot take a strictly impartial attitude.

Another illusion is that government is always controlled by the dominant economic power and thus in reality represents the will of this economic interest. In reality the government is a partner in the conflicts between economic interest and may make a concession here to one interest group and there to another. In the end the dominant economic groups are going to win not because they control the government but only if they control the socio-economic forces. In other words, *power is where it is*, and the government usually reflects the interest of the dominant group to the extent that is necessary to keep itself in power.

#### THE THREE BRANCHES

The major conflict of our time is that between capital and labor. The Roosevelt administration came into power pledged to the New Deal. The country is capitalistic and the political power cannot run production or distribution and is solemnly pledged to protect private property. On the other hand it wishes to keep itself in power. It knows that discontent from the unemployed and badly paid workers is a dangerous threat to its continued existence; consequently it votes tremendous sums for relief and for public works. In reality the government is responding to a

triangular pull from the propertied interests, from the workers, and from its own desire to stay in office. This may be further complicated by a thousand other pulls, but at least no one can pretend that the government is completely above the class struggle or solely under the domination of the most powerful economic interest.

### THE TRUNK

It is true, governments usually conform in the main to the desires of the dominant economic groups. Lenin once declared that the rulers of a country were the "executive committee of the capitalist class." While there is much to be said for this contention, it must be recognized that in a modern political state the chief aim of a government is to perpetuate its power, and to do this it is willing to make compromises to differing competing groups. The Roosevelt administration in America is a good example. The workers were given shorter hours, higher wages, and the theoretical right to bargain collectively; the employers were released from the antitrust laws and given huge sums from the public till; the farmers were told that high prices on farm products would soon be a reality and meanwhile a moratorium on mortgages was offered them. This is not to imply that the president did not do everything because he believed it would aid the nation.

It has been generally recognized that the primary function of the state is to maintain "peace, order, and good government," in other words, to preserve the *status quo* and protect property.

Under the present economic order the government naturally tries to preserve capitalism. What else can it do, considering the fact that it has been elected by beneficiaries of the existing economic order? As many authoritative political writers<sup>3</sup> of the present time maintain, the state today is an organization of co-operating groups, including trade unions, manufacturers' association, bankers, employers' associations, and local communities. And of these the most important are the ones having the most property and influence.

## THE PARTY

Naturally, rival economic interests compete for the control of the government. Propertyless classes won their right to vote through the rivalry of competing property interests. Often property groups have contested with each other for the support of propertyless voters by promises of legislation.<sup>4</sup>

Political parties for the most part are representative of those who have property, but usually divide into a more and a less conservative position. One party, the more conservative, usually stands for the propertied interests which are dominant at any time; the other party caters to the propertied class which is less powerful but perhaps growing in ascendancy. Of course, if the conservative party is out of power, it may make a bid to the propertyless and for the time being seem quite liberal. This is usually temporary and the party reverts to its basic conservative position once it has taken and consolidated its power.

In a capitalistic culture the profit motivation and the undertones and overtones of the social order are so frankly favorable to property and the control by property interests that usually the masses of the propertyless do not need to be bought. They are quite willing to follow the suggestions of the upper class and vote the traditional conservative ticket. In other words, except in periods of depression, the propertyless have acquiesced in rule by the respectable men of property and "standing."

## THE HUMAN ELEMENT

The writer was talking with former Senator Kenyon of Iowa not long before his death; the senator was at that time judge of the United States circuit court of appeals. He declared it was his firm conviction that the American people were gradually sinking into economic serfdom, without even realizing it. They were under the control of the capitalistic interests. These same capitalistic interests were in the main, with a few exceptions, able to control the people so long as they kept them somewhat comfortable. Judge Kenyon contended that the tactics of the corporations towards the people were in no wise different from

that of the successful farmer towards his cows—as long as a certain amount of hay was fed to them they could be milked year in and year out. The mass of the people can be similarly controlled politically so long as they are given work which will furnish them a bare subsistence plus a radio with jazz, trashy moving pictures, and cheap automobiles—for the majority. According to this view, the advantage of democracy over autocracy is that when the capitalist interests cannot even care for the people as they care for their cows—in other words, provide them with food and shelter—the masses do have an opportunity to revolt at the polls. This is an advance over the days of slavery and a hereditary monarchy. To be sure, any system of government can be threatened with violent revolt if conditions become too desperate for the masses. In theory, democracy provides a barometer for discontent through the ballot box. There is much to be said for the “contented cow” theory.

#### THE MATERIAL ELEMENT

One of the realities of the political mechanism in the United States is that politicians cannot live long without funds. In a capitalistic civilization funds can be most readily procured from capitalists. Consequently, politicians need an alliance with business in order to secure funds. Business, on the other hand, needs to control or at least exercise the veto power on the acts of legislatures. The result is a natural alliance between business interests and politicians. This alliance is further promoted by the fact that the basic natural resources are already in the hands of the private interests. The geographic forces which are being exploited concentrate enormous power in the hands of the vested interests.

Mathew Josephson, in his book, “The Robber Barons,” describes the part played by the great capitalists in building America, and John McConaughy, in “Who Rules America?” reinforces this thesis. Granted that these accounts may be exaggerated, they do present a side of American life which must not be forgotten. Captains of industry have often been the invisible government and the common people have paid the price of ex-

ploitation. There is a close relation between politics and the capitalist system.

Woodrow Wilson, as far back as 1912, made this clear when he said:

Suppose you go to Washington and try to get at your government. You will always find that while you are politely listened to, the men really consulted are the men who have the biggest stake—the big bankers, the big manufacturers, the big masters of commerce, the heads of railroad corporations, and of steamship corporations. . . . The government of the United States at present is a foster-child of the special interests.<sup>5</sup>

Considering the fact that this is a business epoch, it is inevitable that a large number of the more able members of society will be leaders of business enterprise. Thus, both from the standpoint of ability and of control of economic power, the industrial leaders are powerful. The result is that the political machine tends to become at least partially an instrument of business.

#### THE ELECTORATE

Consider how the political mechanism works. Kent<sup>6</sup> has described it clearly. The control of the primary election is more important than the final election. The lowest unit is the precinct, of which there are 150,000 in America. In the average precinct only 65 votes are necessary to control the primary election, for there are usually not over 250 individuals eligible to vote belonging to any one party and of these only 125 will actually take the trouble to vote. How does the precinct leader secure his 65 votes? Kent tells us it is as follows. From his own family and relatives, 5 votes; from the families of the judge of elections and his two clerks, paid from \$8 to \$12 a day, 15 votes; from his power to choose a polling place, for which the state usually pays \$100, he can secure 5 more. The party gives him money for runners and messengers, which can usually be counted on for 10 more votes. The large number of officeholders, such as street cleaners, policemen, firemen, clerks, state employees, or those who want to become officeholders, are good for 30 more, which gives the necessary 65.

## INDEPENDENCE IN OFFICE

The existing political system also makes for a certain degree of hypocrisy, for while the money is contributed directly by the big financial interests and frequently a senator or other public official is subservient to those who contributed large sums of money, nevertheless he must at all times seem to be entirely independent of these interests. At one time the state of Pennsylvania was represented in the Senate by one lawyer who had served the Pennsylvania Railroad and by another lawyer who had served the United States Steel Corporation. Both these individuals, however, claimed to represent the working masses of the state, as well as all others.

As we have previously noted, it was proved in 1934 that the chairman of the committee dealing with public-utility matters in the New York state senate, W. T. Thayer, wrote to S. J. McGee, vice president of the Associated Gas and Electric Company, that he hoped his work at the last session of the legislature had been satisfactory to the company. Senator Thayer immediately declared that he wrote this only because "Hundreds of the employees of the Company and thousands of owners of its securities are residents of the district which I represent." In other words he claimed to be representing the people and not the corporation. Investigation showed that he had accepted money from the corporation and he was unanimously expelled by the New York senate although he had previously resigned.

The party mechanism, as it goes up the line from the precinct to the party boss, becomes more and more dependent on an adequate supply of funds. The greatest source of income is from the business men and corporations. Next, probably, come the candidates and office holders. Occasionally there is what Kent calls a "fat cat," meaning a candidate or officeholder who is so wealthy that he can supply himself much of the sinews of war.

## NONPARTISANSHIP

Of recent years it is well known that the financial corporations contribute to both political parties. In 1926, for instance,



Samuel Insull contributed both to Frank Smith, Republican candidate for the United States Senate, and to George Brennan, the Democratic boss and candidate for the senate. At that time Dr. Hugh Magill, who was for years secretary of the Religious Education Association, ran on the independent ticket against these two candidates. It is interesting to note that so powerful is the pressure of financial interest that, although Dr. Magill was running as a protest against public-utility domination in 1926, nine years later, we find him acting as president of the American Federation of Utility Investors to help the utility interests. Many other instances might be cited of the dual interest of corporations in both political parties. For instance, Mr. Have-meyer of the sugar trust testified, "In Republican states we contribute to the Republicans and in Democratic states to the Democrats, and in doubtful states we contribute to both sides."<sup>8</sup> Professor Odegard declares that as a result it is "invariably the party with the largest war chest which wins." Jay Gould frankly admitted, "I wanted the legislatures of four states, and to obtain control of them I made the legislatures with my own money."<sup>9</sup>

It is not only in the distant past that this has happened, but also in recent years. For example, in the primary campaign of 1926 J. R. Grundy, president of the Pennsylvania Manufacturers' Association, raised over \$1,000,000 for the primary campaign of the Pepper-Fisher ticket. He frankly admitted that he expected to get favorable results later from their election.<sup>10</sup>

#### THE MIGHTY AND THE MICE

It is small wonder that the modern billion-dollar corporation is so powerful in politics. Compared with the state, it has far more money, more skilled workers, and often more power. Consider the following extracts from a table drawn up by Professor C. E. Merriam and printed in "Recent Social Trends." It will be noticed in the table on the next page that many other gigantic corporations might have been listed equally well. No wonder states are helpless. Dr. Walter M. W. Splawn of the Interstate Commerce Commission, for instance, charges that the American Telephone and Telegraph Company is "more powerful

COMPARISON OF CERTAIN CORPORATIONS AND STATES WITH RESPECT TO GROSS REVENUE AND NUMBER OF EMPLOYEES <sup>11</sup>

Corporation or political unit	Gross revenues	Employees
United States Steel Corporation .....	\$1,201,377,367	211,055
Great Atlantic and Pacific Tea Company.....	1,053,602,882	40,000
General Motors Corporation .....	966,687,332	172,938
Pennsylvania Railroad System .....	616,638,650	166,607
New York City .....	611,571,726	86,509
Standard Oil Company of Indiana .....	465,752,175	44,520
General Electric Company .....	396,242,631	78,380
American Telephone and Telegraph Company..	292,014,871	324,343
New York State .....	272,940,372	28,798
California .....	116,919,827	17,495
New Jersey .....	91,068,090	8,385
Ohio .....	78,527,215	6,426
Illinois .....	69,901,391	13,134
North Carolina .....	41,401,317	6,506
Maryland .....	28,165,361	6,962
Maine .....	18,014,201	2,500

and skilled than any State government with which it has to deal." <sup>12</sup> Dr. John H. Gray, a past president of the American Economic Association, in a careful study of the regulation of public utilities in the last twenty-five years, declares that the consumer has been left helpless and that there has been a "complete breakdown of public utility regulation." <sup>13</sup> Governor Pinchot says:

As a matter of cold fact, from the beginning most of them [the State Public Service Commissions] were owned, controlled and operated by and for the benefit of the public service companies. The latter bought up legislators and legislative committees, and bought up public service commissions as well. <sup>14</sup>

#### SUBSCRIPTION

Professor Pollock, after an exhaustive study of campaign funds, says, "There is no doubt that money is now given and accepted with implied understandings," <sup>15</sup> although he believes there has been some decrease in this. The same author made a study of money and politics in Great Britain, the Irish Free State, Germany, and France. He found that large sums of money are expended for political purposes in each country and that it comes from comparatively few persons. Therefore the controlling in-

fluence within a party and nation passes to a few interests. In all these countries there was a close connection between business and politics. In Great Britain the control was least; in Germany, where banks and corporations were able to control political parties, it was greatest.<sup>16</sup>

Lord Bryce was undoubtedly right when he frankly recognized that "power cannot be dissevered from wealth so long as wealth exists."

#### PROMINENT CITIZENS

But money is not spent only at elections. In many states the political boss is in effect an agent of big business. A recent survey of ten well-known municipal bosses of the past half-century resulted in the following conclusion. It will be noted that every single one was active in securing contracts and franchises for business interests.

Two (as the court records show) resorted to outright peculation from the public funds; six used the plan of levying assessments on candidates and office holders; three are believed to have profited from levies upon gambling houses of ill fame; *all* were active in connection with contracts and franchises; and two were believed to have profited by diverting the investment of public funds.<sup>17</sup>

Indeed, the American political boss has often been compared to a feudal overlord. He himself need not necessarily openly accept money from the business interests. He can have a silent partner who serves as a contractor in street paving or sewer digging, or his partner can be a lawyer whose fees enable business interests to get advice from the government. Professor Munro after studying the situation as it actually exists, declares: "The boss who knows his business will take whatever he can get, keep for himself as much as he dares, and divide the rest with his trustees."<sup>18</sup>

Rarely is the relationship as direct and open as in Connecticut. There J. Henry Roraback, Republican state chairman, is president of the following companies: The Bristol Traction Company, the Central Connecticut Power and Light Company, the Connecticut Cable Corporation, the Connecticut Electric Service Company, the Connecticut Light and Power Company, the

Northern Connecticut Power Company, the Housatonic Water Company, and the Rockville-Willimantic Lighting Company. In addition, he was a director of the Rocky River Realty Company, the Aetna Casualty Insurance Company, the Aetna Life Insurance Company, the Automobile Insurance Company, the Connecticut Railway and Lighting Company, the Eastern Machine Screw Company, the Hartford County Trust Company, and the National Fire Insurance Company.<sup>19</sup> The fact is that since 1915 J. Henry Roraback has usually controlled both houses of the general assembly, has dictated to the governor, and has manipulated much of the state power. In reality Roraback, rather than the governor, has a veto power on any legislation. The last Republican governor, J. H. Trumbull, who was in office for six years, was himself an officer in several public-service corporations and sold his business to Roraback's Connecticut Light and Power Company. Yet this state may not be worse than many others. Arthur Warner, in a chapter on Delaware—the Ward of a Feudal Family, maintains that the Du Pont interests virtually own the state of Delaware.<sup>20</sup> In 1935 *Fortune* headed an article on the Du Ponts by the frank admission that Delaware was "their state", "which they rule and protect". In a confidential memorandum made public by the Senate Munitions Committee in 1935 Major K. K. V. Casey of the Du Pont Company in arguing for their selling explosives in Europe made the astounding claim that they represented the country more nearly than Congress. He wrote,

Congress is too short-sighted to see the necessity for appropriating funds to keep private manufacturers of military materials in business. The Army and Navy would spend money for this purpose if they could get it and because they cannot they are doing all they possibly can do and that is to help us make sales to other nations. This is our country and not the country of Congress.<sup>20a</sup>

In many cases it is unnecessary for the financial interests to subsidize an elected official, for they take care to see that an individual who thinks along safe and sane capitalistic lines is elected. This was eminently true in the case of President

Coolidge, who served his political party faithfully from the lowest office to the highest, never saying anything to cause the leading financial interests any qualms.

#### THE FREE BALLOT

How some of the big utility companies operate in a concrete local situation is illustrated by what happened in Portsmouth, Ohio,<sup>21</sup> a town of some 43,000 inhabitants. Here electricity is supplied by the Ohio Power Company, a subsidiary of the American Gas and Electric Company. Ever since 1929 the town has been torn by agitation for municipal ownership. This proposal was defeated in 1930 by a majority of 5,180; in 1932 by 240; and in 1933 by 2,736. H. H. Higgins, who opposed municipal ownership, had \$4,555 to spend for transportation and meals to take 1,200 Portsmouth citizens to view the private plant of the Ohio Power Company. He also had \$10,802 from the American Gas and Electric Company to pay 263 "canvassers" to go from door to door to see how people were going to vote, some of these "canvassers" receiving as high as \$200 or more. The Ohio Power Company was also able to circulate cards at a Methodist church carnival just outside the city reading, "This carnival is made possible through the Ohio Power Company's donation of electric power for cooking and lighting. Remember this when voting next November 7."

Another method is to place town officials in the pay of the private companies. Certain members of town boards in the territory served by the Long Island Lighting Company received more than \$33,000.<sup>22</sup> All of this presumably costs the people in excess rates. Governor Pinchot estimates this overcharge throughout the United States as at least \$500,000,000 annually.<sup>23</sup> In New Zealand the average rate per kilowatt hour is .85 of a cent: New Zealand sells for \$0.34 what costs \$3.48 in New Jersey.<sup>24</sup>

It is not only by direct contributions of money that the capitalists exert their influence. They also do it by indirect but nevertheless effective means. For example, a statement may be printed in a certain factory and presented with the pay checks

to every workman, urging him to vote for a certain political party. In the Bryan campaign the capitalists even went so far as to give large orders to the manufacturers on condition that these orders should be executed only if Bryan was not elected.<sup>25</sup> It is no wonder that Professor Laski speaks of the "invisible strangle hold of wealth upon the two great parties" in America.<sup>26</sup>

#### THE INVISIBLE GOVERNMENT

When it comes to the relationship of capitalism to national legislation, our political system has developed potent pressure groups. In effect we have an invisible government made up of the various special interest groups. There are over 500 of these at Washington. This lobby has been well called the Third House. Each state capital also has its share. For instance, in 1928 there were 40 groups at Albany, 77 groups in Massachusetts, 127 in California, and in 1925 there were 170 in Ohio. In 1933 there were over 100 registered in Ohio.<sup>27</sup> Every sort of group may be represented in addition to the business groups—altruistic, religious, militaristic, pacifist. In effect it is a form of supplemental representation. Herring declares that 100 of these group lobbies at Washington are powerful and effective. The groups act by preventing proposed bills which they oppose from being reported out of committee. It must be remembered that under our legislative system the House of Representatives acts more and more on the verdict of its committees. In the Sixty-ninth Congress 91 per cent of all committee reports were acted on as requested by the committee. In the early days of our government the lobby usually represented an individual firm; today it often has behind it a national organization. After a careful study Herring declares, "There are no interests more fully, more comprehensively, and more efficiently represented than those of American industry."<sup>28</sup> He found not one industry in America which was not represented, either directly or indirectly. These lobbies have been successful in securing the passage of legislation. This is so well known as hardly to need comment, the best example being that of the tariff. On the other hand the lobby of the workers of the country has supported and

secured such measures as the Clayton Act, workmen's compensation, and the recent railroad act. Herring says that the lobby is quite prepared to take action against a representative or senator if he votes the wrong way. "Many an able public servant has been defeated because of his opposition to such a group."<sup>29</sup>

In matters of state legislation the corporation is sometimes more crude in its action. For example, Governor Reed of Kansas said:

The corporation lobby has begun early this year. It has already had a big booze party at one of the principal hotels in Topeka. At this party were 8 state senators, 4 railroad attorneys, representatives of the Bell Telephone Company, and other public utility and corporation representatives.<sup>30</sup>

Usually the lobby is effective. Ralph M. Blagden of the *Christian Science Monitor*,<sup>31</sup> comparing the results or lack of results of legislation in Massachusetts in 1934, reported that whenever there was a conflict between the public and private interests the public lost. In fact, this seemed so clear to the Democratic leader in the senate that he started a drive for an investigation of the insurance and utility lobbies at the state house.

The Pennsylvania Security League, with the aid of Professor Ralph E. Turner of Pittsburgh University (later dismissed) and Dr. Susan M. Kingsbury, director of the department of social economy and social research of Bryn Mawr, published in 1933 *The Pennsylvania Black News*,<sup>32</sup> giving the record of each member of the legislature on certain social legislation and showing the effect of the lobby. The paper is headlined, "Recording the betrayal of the unemployed, the workers, the aged poor, the injured, the working women and children, and the taxpayers—by the legislators and their controllers." It declares that the chambers of commerce, the manufacturers' associations, and other organizations of special privilege defeated the child-labor amendment to the Constitution. The detailed record on fifteen separate measures is given.

## EXPERT COUNSEL

Very often it is unnecessary to use a lobby because the man selected for public office has been placed there by the special interests. Senator Bingham, formerly of Yale University, actually used an expert, C. L. Eyanson, who was assistant to the president of the Connecticut Manufacturers' Association, as his clerk in framing the tariff in 1929. Eyanson was put on the payroll as clerk and attended the meetings of the Finance Committee even when in executive session, all the time continuing to receive his salary as an official of the manufacturers' association. To effect this arrangement the regular clerk had to be temporarily displaced. Eyanson turned over his salary check from the United States government directly to the regular clerk. In a hearing, after this matter had been exposed to the public, Senator Robinson asked Bingham if he did not think it was falsifying the record to have this done. Later Senator Walsh reported to the Senate that of fifty-two leading industries in Connecticut, the duty affecting forty-four had been raised, had remained unchanged as to seven, and in one case had been reduced. Senator Walsh estimated the result was such as to give \$70,000,000 additional to Connecticut industries.

Of course, success in securing legislation and in electing candidates also depends on propaganda. The Republicans reported expenditures of \$3,000,000 to elect Coolidge in 1924.<sup>33</sup> If necessary almost anything will be done to win an election. The British Labor Party was defeated in 1924 by the Tories through the fabrication of an imaginary letter by Zinovieff. H. N. Brailsford says, "It never existed. What there was, was a note by a supposed spy, written from memory, of a letter which he pretended to have heard read aloud at a Communist Committee-meeting."<sup>34</sup> This is the basis of a national political victory in a modern democratic state!

Prepared speeches for political candidates are a commonplace. This resulted in a very amusing instance in the campaign of 1932, in which Roosevelt was elected. Both Alfred E. Smith and Franklin D. Roosevelt desired the Democratic nomination.



At the Jefferson Day banquet in Washington Smith was reported to have bitterly attacked Roosevelt, yet in the address five days later made by Roosevelt his language in certain places was identical with that of Smith. Here are excerpts from both addresses.

Smith—April 13: "The consequences of the Hawley-Smoot bill have been tremendous, both directly and indirectly. Directly, American trade has been steadily dwindling. . . . Indirectly, the high schedules of the Hawley-Smoot bill caused European nations to raise their own tariff walls not only against us but against each other."<sup>35</sup>

Roosevelt—April 18: "The consequences of the Hawley-Smoot bill have been tremendous, both directly and indirectly. Directly, American foreign trade has been steadily dwindling. Indirectly, the high schedules of the Hawley-Smoot bill caused European nations to raise their own tariff walls and these walls were raised not only against us but against each other."<sup>36</sup>

It is reported<sup>36</sup> that two personal friends of these gentlemen wrote the speeches and exchanged notes. Publicity experts hired by the interests frequently do amazing things. For instance, the United States Sugar Association and the Chamber of Commerce of Cuba hired an expert who claimed to have the following achievements to his credit, among others: induced the American Exporters and Importers Association to pass a resolution; secured a statement to be issued by the Foreign Trade Council convention; secured a special bulletin issued by Raymond Buell of the Foreign Policy Association and furnished him with material for it; arranged a special dinner on the question by the Chamber of Commerce of the State of New York; induced President Green of the American Federation of Labor to write a letter on the subject to Representative Frear; induced the associate editor of *Time* to make a special trip to Cuba; induced the Federal Council of Churches to prepare a special bulletin on the subject; sent a story to 1,200 newspapers after the House had adopted the tariff rate; contacted a close advisor to Governor Smith and reported "The plan is for Al Smith to come out at the proper time with a statement"; arranged to have Senator Kapper send out material.<sup>37</sup>

## CONTROL AND CORRUPTION

The result of all these tactics has been such a direct and indirect control of the political machine that legislative control of corporations has usually been ineffective. For instance, Dr. Luther Gulick, director of the Institute of Public Administration of New York and professor in Columbia declares, "We cannot depend upon regulation. Witness our ineffective regulation of utilities, insurance companies and banks."<sup>38</sup> Raymond Moley, after an exhaustive study of politics and criminal prosecution, reported that the American prosecutor is "a completely political official." He is often completely controlled. Naturally, if the prosecutor is controlled, it is exceedingly difficult to enforce the law where his supporters are concerned. This leads us to a consideration of the relation of capitalism to political life as shown by direct corruption.

Lincoln Steffens long ago, in a series on "The Shame of Our Cities," showed the corruption then existing in most of the leading cities of this country. More recently Judge Ben B. Lindsay, in "The Beast," showed the close relationship between politics and business life. He there declares that all laws favoring labor, such as the employers' liability law and laws requiring safety appliances, have either been defeated or made ineffective by the corporation control of the legislature. He says, "The state railroad commission has been a pitiful joke."<sup>39</sup> Of the legislature of 1909 he says, it "defeated a public utilities bill that would have prevented the gas company from watering its stocks and bonds 25 millions—25 millions on which the citizens of Denver must pay interest. Money stolen from our homes by a method more refined but none the less criminal than the entry of a second story man."<sup>40</sup>

Klein has told the story of the bankrupting and looting of the city of New York.<sup>41</sup> Since these exposures it has been thought that conditions have been improving. However, it is exceedingly dubious whether this can be proved scientifically. Certainly the exposures made by the tireless efforts of Judge Seabury are as bad as almost anything which has ever been brought to light.

Innocent girls were railroaded to prison or forced to pay huge sums. Men on small salaries banked hundreds of thousands of dollars. Mayor Walker's own secretary fled the city rather than testify in the hearing. When a police college was established, \$100,000 was spent for the files alone.<sup>42</sup>

#### FINANCE

One illustration will show the method used in extracting graft through the leasing of city piers. The United States Lines were forced to pay \$250,000 to W. Bernard Vause, a judge of Brooklyn, when it leased three city piers. Vause was later sent to the federal penitentiary for using the mails to defraud.<sup>43</sup> E. C. Comp-ton, Republican nominee for borough president of Manhattan, in 1931 retained George W. Olvany, leader of Tammany Hall, to facilitate the sale of a pier to the city for \$2,500,000.<sup>44</sup> The North German Lloyd was blocked from securing a pier until it had paid \$50,000 to W. H. Hicken, president of the National Democratic Club. He apparently passed on \$45,000 to others.<sup>45</sup> The politicians also set up dummy corporations. The city leased piers to these corporations, which leased them in turn to the steamship companies. An example of this and the price paid for the lease is as follows: the dummy corporation paid the city \$53.47 per day for the lease of a pier; the steamship company in its turn paid \$500 per day to the dummy corporation.

It is no wonder that Borough President George U. Harvey of Queens told a convention at Saranac Lake in October, 1930, that "Graft is universal."<sup>46</sup>

#### BUSINESS IN GOVERNMENT

Judge Seabury reaches the conclusion that nothing short of municipal ownership will remedy the evils which the two big monopolies, the Consolidated Gas Company and the New York Edison Company, have thrust upon the city. In speaking of them he says:

Their record has been one of extortion. Their privileges were conceived in fraud and political corruption and throughout their existence they have been a constant source of temptation to corrupt officials. Both

of these corporations exist in violation of the law and both enjoy absolute monopolies in the necessities of life. Both have violated the law of the State, both have made false reports to avoid the payment of their just taxes and both have entered into a close and friendly alliance with public officers whose duty required that they should protect the public from extortion.<sup>47</sup>

Seabury's technique in exposing the corruption was first to examine witnesses in private, then hold public hearings, and to analyze the suspect's financial accounts. The examination of Magistrate Brodsky during his tenure on the bench proved that he was active in managing and operating real-estate companies and that he was also active as a speculator in the stock market. He had eleven brokerage accounts and at one time operated five of them simultaneously. The total value of the securities he bought and sold during the six years he was on the bench amounted to over \$7,000,000. The magistrate failed to produce his check books and canceled vouchers, except for a very limited time. The appellate division denied that Magistrate Brodsky had engaged in business under the meaning of the act, although Presiding Justice Victor J. Dowling vigorously protested. Mr. Kresel conducted the prosecution of Magistrate Brodsky. In February, 1931, Mr. Kresel himself was indicted, charged with advising officers of the bank in a deal which enabled one of the bank's numerous subsidiaries to repay an \$8,000,000 indebtedness with the bank's own funds. Kresel himself was later convicted, although Samuel Seabury declared that he never would have been tried had he not taken part in the Seabury investigations and thus incurred the enmity of the political powers.

#### ALERTNESS

In the examination of District Attorney Crain, the following facts were brought out:

From the aged prosecutor's own testimony the administration of criminal justice in the greatest city in the nation, the Mecca of the world's smartest thieves, robbers, murderers, and criminals of every character, appeared to be completely broken down. In the first year of his administration, only two men were convicted of murder, although the

police listed 273 homicides; only 37 were convicted of burglary, though 1,194 were arrested and 839 indicted; only 45 were convicted of robbery, though 1,156 were arrested and 693 indicted; while the "major crimes" as listed by District Attorney Crain—robbery, burglary, grand larceny, and assault—resulted in a total of 72 convictions, equivalent to 4 per cent of those arrested.<sup>47</sup>

### PUBLIC PLUNDER

Even late in 1934 city officials were still uncovering graft in New York City. For instance, one city coal clerk, on a salary of \$3,000 a year, banked \$77,110. It was shown that the coal companies had been selling the city inferior grades of coal with a liberal blanket of good coal on top.<sup>48</sup>

It will be noted that it has been capitalistic enterprise which has corrupted city officials and done so for profit. Democratic government is a nonprofit enterprise. Where it has been corrupted it is for the most part attributable to capitalism. Yet there are thousands upon thousands of government officials who have refused to be bribed by profit, and on the whole government service is probably more honest than private business.

When we turn to national politics the record of the past few years is appalling. It stretches all the way from the bribery of a cabinet officer of the United States by the oil interests to the taking of retainers by Democratic politicians in the Roosevelt administration. Perhaps one of the most serious effects of capitalism in its relation to government is what it does to new enterprises. The record of the railroads in their inception is notorious.

Senator R. F. Pettigrew has told something of the story. He declares that some of the railroads distributed stock to the senators and members of the House of Representatives. "Every Republican member with a particle of influence received a share," as well as the prominent Democratic leaders. Laws were then passed by which the government of the United States gave the railroads a land grant of half of all the land ten miles wide on each side of the track from Omaha to San Francisco, and also provided more than enough money to build and equip the roads.

J. L. Bell, a former railroad employee, was made second assistant to the postmaster-general at a very much reduced salary to supervise the railroad mail service, and the railroads received ten times as much per pound as the express companies paid for carrying express matter on the same train. When the railroad mail cars were started, the companies rented them to the government for twice as much per year as the original cost of the cars. In order to increase the payment to the railroads, the senator declares "The Seaboard Air Line procured 16 tons of public documents, franked by some member of the House or Senate," which they shipped back and forth to their station agents. They kept these sixteen tons going for thirty days. Then they secured an extra addition of a newspaper which weighed five tons and shipped that back and forth along the line for another month. Senator Pettigrew declares this was the general practice on the railroads.<sup>49</sup>

It can thus be seen that the railroads, in seeking private profit, not only defrauded the people of the United States through secret rebates, but actually defrauded the United States government and prevented as far as they could the honest administration of the post-office department.

More recently the letters from John D. Archbold, vice president of the Standard Oil Company, to members of the United States Senate, of Congress, and of state legislative bodies have been exposed. These letters proved the payment of large sums to United States Senators Mark Hanna and Joseph Foraker of Ohio, Boies Penrose and Matthew Quay of Pennsylvania, and Joseph W. Bailey of Texas. Of course, both political parties were implicated.

#### PUBLIC TRUST

During the World War the railroads were nominally under control of the federal government but were often run by their actual owners. Senator Pettigrew maintains that in spite of the honest efforts of the public officials many of the railroad executives did all in their power to defraud the government. Often they organized terminal companies separate from the railroads

and charged rent to the government for them. By sabotaging the government they did all possible to prove that government ownership was harmful, and yet they were paid handsomely in the process.<sup>50</sup>

#### THE HIGHER REACHES

Again it might be thought that these conditions have long since been overcome, were it not for the fact that more recently we have had the exposures in regard to air mail. Here in its turn is an infant industry receiving millions and millions of aid from the federal treasury. Individual investors put in from \$40 to \$253, and—at least on paper—were able to take out from \$5,000,000 to \$30,000,000 of profit because of money unjustly secured from the federal government. The postmaster-general declared that the air companies received overpayments for mail to the extent of \$46,800,000.<sup>51</sup> So outrageous were the conditions that the president of the United States was forced in 1934 to cancel all air-mail contracts. The new contracts actually reduced the cost of air mail to the government by one-half.

Chase C. Gove, an assistant superintendent of the railway mail service, was suspended in 1934 because in 1930 he had accepted loans aggregating \$10,000 from Paul Henderson, an official of the United Aircraft and Transport Company.<sup>52</sup> The United States Senate was forced to order the arrest of a former assistant secretary of commerce, Mr. MacCracken, in order to secure his records. General William Mitchell assailed the private companies as profiteers for what they had done and declared that their greed had thwarted the development of aviation in this country.<sup>53</sup> There is also testimony to the effect that mail matter had been shipped back and forth by plane to increase the government subsidy, in much the same way that the railroads once did.

Even more recently inequitable conditions in regard to ocean mail have been shown. It was found, for instance, that the government had paid as high as \$25,000 for the shipment of a single pound of mail and that in the aggregate it has paid \$100,000,000 for ocean mail which could have been shipped on a poundage basis for \$15,000,000.<sup>54</sup>

In spite of all this inefficiency created by profit-motivated business, the post office, a nonprofit enterprise, has been on the whole efficiently run.

#### ETHICAL STANDARDS

The conditions which we have cited in regard to the relation of capitalism to government do not obviate the fact that thousands of officials have tried to serve their country honestly. Nevertheless, permeating the entire political system is the subtle effect of capitalism. Politicians as a whole tend to fall unconscious victims to the capitalistic ideology, even when they are honest. In his outstanding study of political behavior in the United States, Kent devoted an entire chapter to the political principle that it does not pay "to buck the business interests." He then says that the politician must not attack plutocracy, vast riches, vested interests, predatory wealth, Wall Street, the trusts, or giant combinations. Moreover, if an individual has a single share in a public-utility corporation he thinks his interests are identical with the capitalistic class. He declares that "not once since the Civil War has a presidential candidate been chosen to whom the bulk of the business interests were opposed."<sup>55</sup>

Since most candidates for public office hold shares of stock in capitalistic enterprises the tendency has been for them to conform psychologically to the capitalistic pattern. Kent says of them, "He [the politician] isn't against big business, he is for it."<sup>56</sup> Kent maintains that it is now "proved up to the hilt that the great mass of voters have no inherent opposition to corruption, that at heart, however they may have felt in former decades, they do not now expect or demand rigid honesty in public officials."<sup>57</sup> He cites the fact that even after it was shown that \$60,000 of the Continental Trading Company profits (which the Supreme Court of the United States itself had declared corrupt) had gone into the Republican war chest, and that bonds from Sinclair had been used to wipe out its 1920 deficit, the Republican Party was triumphantly reelected. He also cites the fact that in Indiana the corruption from 1924 on was so terrible



that by 1928 one governor had served a term in the penitentiary, another escaped because of the statute of limitations, the mayor of Indianapolis had been convicted, six members of the Indianapolis city council, the Republican state chairman, the state bank examiner, the former state treasurer, and four other prominent Republicans had been indicted. Practically all of these were cogs in the Watson machine. Yet in 1928 Watson triumphantly won the presidential primary in the state against Herbert Hoover.<sup>58</sup>

#### THE MACHINE REPUDIATED

It must not be forgotten that Kent was writing in 1928, and that in 1934 President Roosevelt has attacked corruption in high places. Kent will probably argue that this is due to the depression rather than to the attitude of the voters against corruption. It has certainly been true in the past that the average politician, even if urged to oppose special privilege, has felt that a fight against the powerful interests of his state would be hopeless. Even where the electorate overturns the dominant machine, as in Connecticut by electing the dean of the graduate school of Yale University to the governorship, little can be done. Two terms of his administration have accomplished little of any consequence against the public-utility interests of the state. There are few states in the Union where the link between the Republican boss and the utility interests is closer.

In a capitalistic country there is also a feeling favorable to what has been termed "honest graft." In other words, it is generally considered respectable to get as large private profits as possible; it is all right to use inside knowledge that a subway is going through, for instance, to buy up real estate. Most politicians feel that this is no more than "everyone else is doing."

#### JUSTICE

With wealth and special privilege in a dominant position, it is inevitable that the legal system should also be refracted in favor of property power. This was conclusively shown in the study of the Carnegie Foundation entitled "Justice and the

Poor,"<sup>59</sup> "a study of the present denial of justice to the poor." Probably the three outstanding defects there cited are judicial delays, court costs, and fees. Often political influence counts. One lawyer, for instance, openly stated that he had joined Tammany Hall because, "By joining this organization I can get cases referred to me and I can also get attention from the judges before whom I bring cases."<sup>60</sup>

In some places the local courts are virtually controlled by the financial interests, and nearly everywhere men of property power are given special consideration.<sup>61</sup> Recently it has been shown that there has been widespread jury fixing in Boston. The Boston Bar Association issued a statement in October, 1933, declaring, "The fact that during the past few years jurors in this county have been accepting bribes is established beyond peradventure."<sup>62</sup> This condition may be exceptional, but the brazen way in which former jurors declared that they had bargained for their votes shocked the examiners. It seems likely that the entire money culture of a profit-motivated economic order makes a climate in which corruption can easily grow. At its best it is universally recognized that the judicial system in a capitalistic country favors the rich, if for no other reason than that they can secure the best counsel.

It must not be supposed that political corruption in the United States is any worse than in many other capitalistic countries. It may be better than some and worse than others. In France the Stavisky scandal showed equally bad conditions both in regard to the law and to politics, and resulted in the fall of the French cabinet.<sup>63</sup> In Japan the Saito cabinet was forced out in 1934, because of bribery involving a finance vice minister, four other finance ministers, and possibly a cabinet member.<sup>64</sup>

#### WEALTH AND POWER

Even at best, so far as the record of the past is concerned, we must recognize that political life means very slow change in curtailing capitalistic profit and extortion. Rapid change is only possible when the business interests themselves are unable to take care of the masses, to provide them with even the ordinary

dispensation of food, clothing, and shelter, and any kind of work. Then violent outbreaks, marches on Washington, or political revolution may occur. Even then the changes are apt to be in the direction of capitalistic interests if one considers the fact that most modifications tend to prolong the system. S. Mallet-Prevost,\* writing on "The United States: Democracy or Oligarchy," concludes that it is an oligarchy. He says of it, "While selfish in purpose and often corrupt in practice, it does seek the public good when measures to that end do not conflict too seriously with its own interest."<sup>65</sup> He concludes, "The present American oligarchy lives on what it can make out of the people. Destroy the sources of its plunder and its character will change."<sup>66</sup>

It is hard to get away from the conclusion of Professor Munro, "Wealth will have power as long as wealth remains. Those who own the earth will rule it."<sup>67</sup> At present, as we have shown in an earlier chapter, the few control the basic natural resources and operate them for private profit. It is impossible to have a genuine democracy as long as wealth remains thus concentrated.

#### SUMMARY

The facts presented in this chapter have been known for a long time by the experts in the field of political economy. For instance, it is the considered judgment of W. J. Shepard, writing in the "Encyclopedia of the Social Sciences," that:

In spite of systems of universal and equal suffrage, of representative legislative bodies, even of the initiative and referendum, it has become more and more evident that effective power is concentrated in the hands of relatively small but wealthy groups. The alliance between government and big business; the significance of the boss who performs the very profitable role of political broker; the part played by the political machine; the extensive use of money in elections; the power and methods of propaganda; the place the lobby occupies in the actual work of government, have come to be better understood.<sup>68</sup>

\* This author is member of a prominent law firm in New York City and was formerly president of the Pan-American Society of the United States and also represented the United States in an arbitration with Great Britain.

Unfortunately the realities of the subsidized state have not been understood by the average citizen, who has been under the illusion that he was living in a genuine political democracy instead of a state subsidized by capitalistic interests.

It should not be assumed from the treatment of government thus far given that the state itself is without values. Under any social structure some form of governmental organization will probably be needed. The state, even under capitalism, does perform indispensable duties and provides a great many services far more efficiently and economically than profit-motivated industry. The post office, the public highways, and the public schools, for instance, are given to the people at incomparably less cost than would have been the case had they been controlled and operated for profit. The fact that corruption of government under capitalism is a fact does not vitiate the genuine services which the government does render. It is not that the state is not needed but that it can be transformed so as to render far greater service.

Theoretically, under a *laissez faire* economy the state might not be corrupted by capital, since it would keep its hands completely off the business life. It is doubtful whether such a theoretic state ever existed, and in any event the era of *laissez faire* is now ended.

When the state once assumes to regulate industry it becomes to the interest of business enterprise to control the controllers. In this chapter we have shown that whenever and wherever business men thought they could secure special privilege from the state they did not hesitate to act immediately in their own interest. Similarly, whenever the state had the power to regulate rates, to suppress monopoly, or to enact social legislation, the profit motive of necessity tended to force business leaders to interest themselves in controlling politics.

Capitalistic interests operated, as we have seen, in the most subtle ways. The political system tended to prevent an adequate civil service with able and well-paid officials serving in the public interest. Men went into the various branches of the government service long enough to learn the actualities of the governmental

controls and were then hired by private property at large salaries and became the servants of special privilege. Public officials who unswervingly served the people's interest were defeated at the polls and all the other devices and methods sketched in this chapter were used.

It is unescapable that any attempt to regulate big business by the state will involve continued and vigorous conflict except as the state conforms to the wishes of finance capitalism. In the long run the state is usually controlled by the dominant economic interests. Under the Roosevelt administration, which has attempted to regulate and reform capitalism, what has actually happened has been that the big financial interests have largely had their way. The antitrust laws have in effect been repealed and the provisions of the law providing for union representation have often been nullified.

The only way to have a genuine democratic state is to have the largest industries and public utilities owned and operated by and for the public on a non-profit basis. There is an inherent weakness and an inescapable paradox in a capitalistic state. To the extent that it attempts to control industry by and for all the people it runs up against all the power of capitalism with its irresistible profit urge, which then usually proceeds to control the government. On the other hand, if the state does not regulate industry the people also become the victims of exploitative capitalism.

## CHAPTER XXI

### PRIVILEGE AND PROFIT

EVERY social group throughout history has been marked by differentiations. Giddings long ago pointed out the importance of consciousness of kind. Popularly this is expressed in the proverb, "Birds of a feather flock together." Our modern society is no exception to this rule. In the Middle Ages social differentiation was based on status or rank; a man was born into it and it was difficult if not impossible to change. At present class differentiations are not as rigid as they once were. Heredity still carries weight; the son of an Astor or a Vanderbilt has entrée where the son of a Kedrofsky or a Smith might not have.

It is also true that inborn capabilities play a part, how large we do not know. In America it is still possible for an individual to change from one group to another. This is usually called "vertical mobility." One-seventh of all our distinguished men of letters came from the farm and half of our presidents in the past came out of the farming, laboring, or the more moderate professional classes. Out of forty-seven railway presidents over half were born on the farm. Out of 18,356 individuals in "Who's Who in America" 23.4 per cent were of farm origin, 6.3 per cent were sons of skilled workers, and 0.4 per cent were sons of common laborers. In England 73 per cent of the directors of spinning companies started as mill operators.<sup>1</sup>

Today the expense of education, the subtle influence of environment, irregularity of employment, the obstacles to free movement, and other factors all restrain and prevent vertical mobility.

#### CLASS LINES

It seems probable that in the United States social classes are based largely on the following four factors: the position of par-

ents in the social scale; the standard of living; the cultural level of the individual; and, finally and perhaps most important, the economic income. There is a tendency for those with approximately equal economic incomes to associate together. Furthermore, attitudes and patterns of thought are to some degree influenced by income and standard of living. Capitalism has succeeded in making class dependent in large measure on the ownership of property and distribution of income. Today differences in income are the most important cause of classes. In the United States these differences are tentative; an individual may be down today and, if lucky, his income may be up tomorrow. Nevertheless, for the large majority social position is relatively fixed.

It is commonly believed that the United States is a country which is as far removed from the caste system as any land in the world. It is true that America has no hereditary caste to correspond with that in India; on the other hand, there is in America something which is not unlike a modified caste. America has a *privileged* group which might be called a *property caste*. In the south the color line makes another sharp division, but even there the property status is extremely important, for in almost all cases the Negro is both colored and poor. Whenever a Negro acquires wealth he can to some extent break down the color barrier, if not in the south at least in the north. Although the American property caste is not hereditary, those who have privileges tend to hand them on to their offspring. While the saying, "From shirtsleeves to shirtsleeves in three generations," still has a germ of truth in it, under modern conditions it is harder for the poor boy to rise and there is less likelihood that the son of a millionaire will lose all his money than in the past. To some extent a moneyed class today does perpetuate itself. Morgan, Astor, Rockefeller, Ford, Roosevelt, all seem quite capable of handing on their wealth generation after generation.

The modern strategy of finance capital in tying up family trusts for generations in the future makes the rise of an hereditary caste inevitable. John H. Gray, former analyst and examiner of the Interstate Commerce Commission, says, "I know of but one large fortune probated in forty years not so tied up for

about one hundred years." Great wealth today not only tends to perpetuate itself but to grow on what it feeds on.

The middle-class white-collar group, made up of those who are capable of sending their children to college, is clearly differentiated from those of great wealth. This class is probably more stable than the rich, for its conservatism and frugality keep its rising new members from squandering their means. This class, on the whole, strongly supports capitalism and cannot be clearly distinguished from the rich in ideology. In short there are no definite attitudinal lines between the rich and the bourgeoisie. Capitalism seems advantageous to both.

According to the last Census there were roughly 49,000,000 Americans gainfully employed. In the upper ranks of the aristocracy of wealth were the millionaires and their satellites. By 1932 the number of those reporting an income of \$1,000,000 or more had dropped to twenty, but it rose to 46 in 1933. If we consider all those having a net income of \$50,000 (5 per cent on \$1,000,000) as being in the millionaire class, then there were 70,685 in 1929, according to the study of the Brookings Institution. In other words about 0.2 per cent of the total income-earners in the country were millionaires and they received about 14 per cent of the total income. If we include all those receiving incomes of \$10,000 or over, the number rises to 1.3 per cent of the total number. This 1.3 per cent received over 25 per cent of the total income.<sup>2</sup>

### THE RICHEST ONE PER CENT

Few of these people are entirely idle but many inheritors of great wealth spend a rather limited amount of time in work and a large amount of time in play. Pitirim Sorokin in a penetrating study of millionaires, finds that the tendency of those in the third and later generations is to be "less energetic." They often dedicate themselves to "fine arts" and nonbusiness occupations.

Very rarely do they produce in these fields anything really valuable. . . . These generations manifest a weakness and longing for "titles" and "aristocratic manners," for "conspicuous consumption" and luxury, for "a pecuniary standard of living" and "pecuniary canons of taste."<sup>3</sup>



Huge sums are spent on palatial summer residences at Newport, and winter trips are taken to Florida. Sometimes private yachts costing \$100,000 or more are maintained, to be used for only a few weeks during the year. The luxury of some of the apartments of the wealthy is almost unbelievable. One bathroom in jade and gold may cost \$35,000.<sup>1</sup> Adolph Zukor leases an apartment of nine rooms on Park Avenue at \$36,000 a year.<sup>1</sup> It is expensive to keep children at exclusive finishing schools, and the cost of giving a "coming out party" for one's daughter may run into almost any figure. The New York *World-Telegram* reassuringly says:

The money spent for a *debut* is an investment. The girls whose parents display their wealth may be attractive to the scion of equal wealth who wants to unite two fortunes, and even more attractive to the European who wants to grace an American fortune with his own nobility of birth.<sup>4</sup>

#### THRIFT

The leading financiers often spend on their children vast sums for luxuries. For instance, in 1934, in the midst of the depression, Chrysler presented to his son a custom-built car costing \$20,000. It was reported that it had "such specially built accessories as a complete built-in cocktail bar in the rear, a handsome rack to hold cocktail glasses, a complete luncheon outfit and silverware of special design." A \$3,000 genuine leopard robe was also provided.<sup>5</sup> Master Peter Aldridge of Offchurch, England, is provided with his own modern automobile, built for his size, although he is only eighteen months old. It is equipped with forward and reverse gears, "electric headlamps, traffic indicator, brakes, electric motors, and a nurse. The nurse is just in case the driver fails to make proper use of the brakes. Then all she has to do is to press the button at the end of a long cable she is carrying and the engine is automatically cut off."<sup>6</sup> John D. Rockefeller, Jr., in 1926, built a playhouse for his children at a cost of \$500,000.<sup>7</sup> J. P. Morgan spent \$3,000,000 on his pleasure yacht *Corsair* alone. Professor Beard describes the luxuries of the "gilded age" in these words:

Diamonds were set in teeth; a private carriage and personal valet were provided for a pet monkey; dogs were tied with ribbons to the back seats of Victorias and driven out in the park for airings; a necklace costing \$600,000 was purchased for a daughter of Croesus; \$65,000 was spent for a dressing table, \$75,000 for a pair of opera glasses. An entire theatrical company was taken from New York to Chicago to entertain the friends of a magnate and a complete orchestra engaged to serenade a new-born child.<sup>8</sup>

#### ABILITY

Capitalism inevitably makes the profit seeker ascendant in business life, but it has also permeated society quite generally with the urge for profits. Today large numbers of professional men are employed by corporations. These men—whether artists, clergymen, engineers, lawyers, physicians, statisticians, or what not—cannot do as they please. For the most part they are hired to increase profits. As Professor Mitchell says, "Higher authority is assigned by the money economy to another class of experts, business men who are skilled not in making goods, but in making money."<sup>9</sup> "As an employee of the business man, the engineer must subordinate his interest in mechanical efficiency to his superior's interest in profitable investment."<sup>10</sup> This is true of all who are hired by the corporation. Even the religious worker, if his salary comes from the same source, must not inculcate in the worker a love of democratic trade unions if that is opposed to the ideology of the corporation executives. Indeed people generally tend to ape the standards of their money masters.

This same money purpose increasingly permeates all the professional group.<sup>11</sup> The highest-paid lawyer is usually the one hired by the corporations. He is generally amenable to their desires, and usually comes to be known as the ablest and most successful. "Thus success within the profession comes to mean success in making money."<sup>12</sup> This is often true also of the physician. The one who has the wealthiest clientele is supposed to be the most successful. Thus, in spite of the large amount of free clinic work done by doctors, the money standard tends irresistibly to affect the profession.

## REWARD

How many should be included among the privileged group in America? There is no clear answer. We should certainly have to include all those with salaries of \$5,000 or more. In 1929 this embraced over 1,000,000 individuals. In 1930 the number had fallen to 810,000 which was 1.6 per cent of the 49,000,000 gainfully employed. The income tax returns for 1933 showed only 330,503 with incomes of \$5,000 or over.<sup>12\*</sup> If we should take the number of the privileged by occupation, as listed in the census of gainfully employed, rather than by salary, we might include all professional persons, all wholesale and retail dealers, and all proprietors, managers, and officials. The group would then number 6,599,325, or roughly 13 per cent. This number is probably too large, since many of these may have had low salaries or intermittent work. In 1929 single persons with an income of \$1,500 and married persons with \$3,500 were required to file income-tax returns, yet only 4,000,000 were filed and only a little more than half of these paid any tax. In 1932 the number had dropped to 3,760,402.<sup>13</sup> If we take this latter figure as comprising the privileged group in America, it means that 7.6 per cent of the gainfully employed would fall in that category.

It is extremely hard for a group which is itself privileged to sense the hardships of the remaining 92.4 per cent of the gainfully employed. They do not realize how early many of these people have to go to work in the morning, or how precarious are their jobs. The haunting fear of unemployment can only be experienced, not handed on in writing.

## PENALTY

What are some of the differences between the privileged and underprivileged groups (considering only those who are employed)? In 1931 the magazine *Time*<sup>14</sup> made a scientific study of the population of Appleton, Wisconsin, which it considered a more or less typical city of 25,000 population. Here 71 per cent of the families were making less than \$2,000 a year, while 93 per cent were making under \$3,000. Translated into living

standards, this meant that only a few more than half the families under the \$3,000 level (the underprivileged) had any kind of a car, while the others averaged over one car to a family. Out of every 1,000 families under \$2,000, 143 had no bathrooms; none of those above \$3,000 were so handicapped. While there was no appreciable difference in the number of electric flatirons, there were nearly twice as many radios and six times as many electric fans in the homes of the privileged. Families under the \$2,000 level apparently were not able to travel for pleasure outside their district to any degree; they averaged only slightly over one-third of a trip per family in a three-year period, whereas those in the group from \$3,000 to \$5,000 averaged nearly two trips, those from \$5,000 to \$10,000 two and a half trips, and those above \$10,000 nearly five long trips in three years. These findings seem to be partially corroborated by other sociological studies.<sup>15</sup> At any rate, it is reasonably clear that those in the lowest categories do not mix much socially with those in the upper brackets. As the incomes come closer together there is more intermingling.

#### THE UPPER CLASS

While we have no adequate scientific data accurately to subdivide further the privileged classes in the United States, in general we know that there are the rulers of America, typified by Mr. Gerard's list of fifty-nine. These were nearly all millionaires and owners of vast property kingdoms. How many should be included in addition is something which every reader can decide for himself. In 1929 there were 513 who reported incomes of over \$1,000,000 each, and 14,816 who admitted incomes of over \$100,000. The Brookings Institution study would increase this latter figure to 26,860. Some might include all of these in the ruling class. The middle class embraces a rather wide range of white-collar workers, including many executives, proprietors of small shops, most of the professional classes—in short, all the rest except the farmers, the wage earners, the clerks, and minor employees.

Capitalism has provided comfortable returns for the upper

classes and has enabled them to have lives of leisure if they desire. Most of them find this rather boring, so that they tend to speculate in stocks or play at some kind of business. Many of them are individuals of considerable ability, who have worked their way up from the lower ranks and continue to work for the fun of it. Even in this group capitalism, with its boom periods and extreme depressions, has serious concomitants, as witnessed by occasional and even frequent suicides.

### THE MIDDLE CLASS

The middle class today is far worse off than before the war. Even in 1929 there were only just over 4,000,000 income tax returns filed, and of these only 2,458,049 paid any tax; in other words, 96 adults out of every 100 received so little income that they had to pay no tax. The National Bureau of Economic Research made a study of incomes in 1918, which showed that 1 per cent of the gainfully employed received 14 per cent of the total national income, while another 86 per cent of all the employed received only 40 per cent of the income. Professor Paul H. Nystrom declares that in 1927 the population was divided into the following classes:<sup>16</sup>

Population group	Approximate population of group	Percentage of total population
Public charges .....	1,000,000	0.8
Tramps, work-shy, etc. ....	2,000,000	1.7
Poverty level .....	7,000,000	5.9
Bare subsistence .....	12,000,000	10.1
	22,000,000	18.5
Minimum for health and decency.....	20,000,000	16.8
Minimum comfort .....	30,000,000	25.2
Comfort .....	20,000,000	16.8
Moderately well-to-do .....	15,000,000	12.6
	85,000,000	71.4
Well-to-do .....	10,000,000	8.4
Liberal standards of living .....	2,000,000	1.7
	12,000,000	10.1
Total .....	119,000,000	100.0

It must be remembered that these figures are for a period of great prosperity. In 1935 we had perhaps 12,000,000 unemployed, and other millions—the exact number we do not know—on the poverty level. It is apparent that those in the lower categories must have increased enormously in the interim.

#### CONFORMITY

The way of life of the middle class as a whole is unbelievably standardized and similar. This is shown quite clearly in the study of Muncie, Indiana, where it was found that 1 out of every 5 of 9,200 representative homes took the *American Magazine*; almost as many took the *Ladies Home Journal*, *Physical Culture*, and *True Stories*. Only 35 subscribed for the *Atlantic Monthly* and only 15 had the *New Republic*.<sup>17</sup> This shows a pretty general acceptance of conventional attitudes and behavior patterns. There is little evidence of a critical faculty in reading standards. Practically all families of the middle class have radios, and nearly all have a standard-model automobile and enjoy traveling from somewhere to somewhere on Sunday.

#### PHILOSOPHY

The middle class has attitudes and sentiments which reflect the capitalistic system in large measure. The bourgeois desire security, dignity, privacy, and are not concerned with disinterestedness. Both the bourgeois and the intellectuals are deeply involved in the capitalistic system. Their incomes, their positions, demand the continuance of the dominant economic order. Curiously enough, few of them seem to question the moral values of capitalism, yet the system has not evolved any adequate ethical justifications for its philosophy. It assumes that if everyone goes out for himself the group welfare is subserved. Professor Sorokin, head of the sociology department of Harvard, says of capitalism: "If the devil himself promises them a large profit they [the capitalists] are ready at least in part to enter into friendly coöperation with him."<sup>18</sup>

Because of the absence of a high ethical philosophy the middle class must make rationalizations to explain their sup-

port of the dominant system. Those in it build their ethics around the individual virtues: thrift to get ahead, respectability, conformity to the mores at least when publicly seen. Unconsciously, the middle class tends to copy the externals of the people who are further up the pyramid of income. There is an inevitable deference to those of great property and power. All the middle class is founded on the effort of everyone to try to outdistance everyone else and reach the prizes first. Therefore the welfare of the masses of the people at the bottom is of minor importance as long as these people cause no trouble.

Even the professional classes, who do not themselves ever hope to attain the wealth of the upper capitalistic interests, are ever striving to attain the highest prizes in their own field and attempt to ape the wealthy, perhaps unconsciously, by living in their neighborhoods and adopting luxurious standards so far as they can. During the depression many of the middle class have grown nervous, feeling that perhaps they are coasting too near the edge of financial stability itself. Even in the boom year of 1929 one of them, writing in *Scribner's Magazine*, said that the hardest thing is not the big sacrifices but not having any money for extras. This writer thought that one of the "extras" denied was the opportunity to take a flier on the stock exchange.<sup>19</sup>

#### SUPERIORITY

This is a clear reflection of the effect of capitalistic standards. The middle classes easily fall victims to hypocrisy. It is easy for them to think of themselves as innately different from the wage-earning group. This is one of the rationalizations in every age, for privilege always has a tendency to deny the lowest classes abundant opportunities and then to accuse them of innate defects because they do not have the culture which privilege itself has denied. In the south the white aristocracy claim it would be disastrous really to give Negroes the vote because of their ignorance, while at the same time they make it impossible for the Negroes to have adequate schools; nor are Negroes allowed to have an economic status which will permit them to

provide education for their children. Of course, a great many of the dominant group do not even bother to justify denial of voting rights on the basis of intelligence—Senator Vardaman of Mississippi, for instance, declares that he would be just as much opposed to Booker T. Washington voting as he is to allowing the Negro moron to vote who blacks his shoes.<sup>20</sup>

In general, the middle class romanticizes our economic order, believing that both virtue and vice are rewarded according to their merits, hence it feels confident that those who have nothing are lazy and vicious. This is why, even today, it is often difficult to make men of property believe that there is not something inherently wrong in people who have been unemployed for two years. It is assumed that those who must stay at the municipal lodging house because they are penniless are victims of their own vices rather than the delinquencies of society. Pestalozzi, the Swiss educational leader, told the following fascinating parable. There was once a pond inhabited by a few cannibalistic pike and thousands of minnows, who were eaten wholesale by the pike. The minnows finally became dissatisfied with their constant extinction and held a meeting to decide what they would do. They decided to send a committee to protest to the pike. The ruler of the pike received the committee graciously and said they wanted to do all in their power to help the minnows. After consultation with the other pike they rendered their decision that thereafter they would allow one out of every thousand minnows to become a pike; whereupon the minnows thanked the pike for their generosity and went away satisfied. Thenceforth every minnow expected that he would be the lucky one and would become a pike.

#### LOYALTY

The middle class in America, on the whole, has accepted the economic system as it exists. It believes that the big economic prizes are legitimate and that the economic game as it is being played is legitimate. It is curious how quickly the middle class rationalizes to account for the existing *status quo*. Patriots to-day are in the habit of vowing allegiance to Washington, forget-



ting that Washington himself was a rebel against the dominant power of his day. The middle class as a whole worship at the feet of Jesus, yet they seem to believe the men of property power are Christian. They forget that Jesus was a revolutionary prophet who more scathingly denounced property and riches than has almost any other leader in history. He was so violently opposed by the dominant leaders of his day that he was crucified. Yet his name has now become representative of whatever any dominant Christian group does. Jesus, the Prince of Peace, was used by the armies of every nation in the World War.

### WISDOM

The fact is that many of the superior accomplishments which the middle and upper classes attribute to themselves are usually fictitious. Take away the superior cultural opportunities which have been showered on the middle class in youth and much of the superior position would vanish overnight. College education is nothing to boast about if the student has been given economic assistance from home. The middle class usually thinks of the workers as uneducated. It is true that many have not had a college education; nevertheless, they may have just as sound an outlook on life as any other class. Indeed, Gladstone declared, after forty years in public life in England, that on every great moral issue he had found the aristocratic class, the propertied class, and the educated class always wrong. W. E. Payne, in a doctor's thesis, tells instance after instance of workers who for all practical purposes were highly educated; for one, he tells of a maid in London who spoke English, German, French, Italian, knew a good deal of Latin, and could understand Esperanto.<sup>21</sup>

### ARROGANCE

It is generally believed by middle-class groups that laborers are not as responsible as other groups, that there is a tendency for them to destroy what they control. Payne attempted to discover the facts on which this attitude was based and found that part of it was due to the belief that workers clutter up public

parks and carve their names on tree trunks. Yet on investigation he found no correlation between income and camp neatness.

The absence of culture in workers' homes is often cited as a mark of their inferiority, although most people forget that culture is generally expensive. Adverse comments are made because many workers' homes do not have bathtubs, for instance, although these same workers may have automobiles of a kind. The middle class forgets that as between taking a bath in a particular kind of tub and having an automobile, the weight of the argument may rest entirely on having the automobile.

It used to be thought that poverty among the working class was due to the fact that labor does not save. The unconscious expression of these bourgeois attitudes is frequent. One wealthy woman expressed great surprise that a worker could actually handle electric tools. Another declared, "Isn't it strange what wonderful things these ignorant workingmen will do?" All this is characteristic behavior of the superiority complex. The wife of a college president stated that "the former Socialist leader, Debs, used atrocious English," yet David Karsner, in his biography of Debs, testified to his great ability to use English.

The established values of most people come from their experience; consequently the propertied man tends to feel that the failure of others is due to their own misdeeds. For instance, James J. Davis, former secretary of labor, declares:

So many of my ventures thrived that by the time I was forty I was rated as a prosperous young man. . . . "Life in the mills is a terrible life," so the reformers say. "Men are ground down to scrap and are thrown out as wreckage." This may be so, but my life was spent in the mills and I failed to discover it.<sup>22</sup>

### NEUTRALITY

The middle-class educator often goes to the workingman exhibiting a superiority complex by statements such as these: "I am only interested in the truth. I am not interested in taking sides. I am only interested in education for its own sake. I am not interested in raising your wages. I am not a reformer." Sometimes such statements may be efforts to be scientific; more

often they are mere rationalizations. Doing nothing, not taking sides, is itself upholding the *status quo*. As the distinguished Commission on Social Studies of the American Historical Association says about teachers' attitudes and actions, "The fact is now generally realized that a declaration to do nothing is itself a statement of policy. . . . Moral responsibility for things left undone, as well as for things done, cannot be escaped." <sup>23</sup>

Most of the middle class is oblivious to its responsibility in a strike situation, for instance. Even when it has a vague sympathy for workers who have been unjustly treated by a hard-boiled corporation, the middle class does not feel any obligation to the strikers. Later, no matter how many workers may have been killed by armed intervention on the side of "law and order," the middle class seldom feels itself involved. Indeed, if a professor takes action he is usually looked on with suspicion; that is, if he opposes powerful corporation policy.

#### PROGRESSIVENESS

The typical member of the middle class has accepted a civilization based on things. He is at home in a money culture. He values comfort, respectability, and traditional culture above almost everything else, except his family. Under capitalism it is difficult to recognize the inequities of the system and feel entirely comfortable about one's own position as a beneficiary of that system. Consequently, most of the middle class is fortunate in complacently accepting capitalism without any qualms. Even if professional men sometimes have doubts about the economic order these doubts are usually kept to themselves—at least until it becomes popular to express them. Of course, if the president of the United States attempts a New Deal it at once changes the behavior code. It is popular and right to endorse what the president of the United States does, particularly if he is in favor with the majority. An analysis of the addresses of deans and presidents of universities in the years from 1925 to 1929 showed an almost total lack of criticism of the existing economic order. At that time the economic practices were probably far more unethical and exploitative than in 1935. However,

by the latter time it had become popular to suggest changes in the economic system. Even so, a dean or a college president would most carefully refrain from singling out any concrete examples of unethical practice by the economic rulers of America; such firms as J. P. Morgan and Company or the National City Bank were rarely cited.

#### FRANKNESS

Few of the middle class are willing to sacrifice comfort for the sake of saying unpleasant truths; most of them feel it unnecessary to do so. The fact that millions of their fellow citizens, under the capitalistic system, are deprived of the opportunity to share in the best of this culture is unfortunate, but the middle-class individual sees nothing that he can do about it. Even the average minister would hesitate to lose his position in order to express the truth about the capitalistic system as he sees it. There is thus a cumulative warping effect of the economic system on the attitudes and sentiments of the class groups in America.

A sentiment is an organized system of emotional reactions. It is usually organized around some idea: it may be the flag, private property, the profit system, the home. In America the sentiments of the middle class are in harmony with the existing economic order. The middle classes thus become the embodiment of social crystallizations which have the various patterns appropriate to a capitalistic civilization. To some extent this inevitably involves the middle classes in hypocrisy. They tend to think more highly of their own achievements than they are really entitled to do. Group egotism subtly and quickly enables a privileged group to rationalize its own comforts. The present-day class system makes it difficult to develop real objectivity. Thus the middle class tends to favor minor changes in the economic system, the elimination of small abuses. If a weighing machine has been deliberately manipulated it is dishonest according to middle-class standards. On the other hand little protest is made against the manipulation of rates for electricity in an entire community so as to secure the maximum return for the entrepreneur.

## DEMOCRACY

The result is that in America class distinction usually coincides with high financial return. Gerould, writing on aristocracy in America, says, "Opulence and opulence alone would seem to be the only basis of social acceptability that we can safely name."<sup>24</sup> Again he says, "No one I think would deny that money comes first."<sup>25</sup> In other words he believes that millionairesship is a patent to nobility in the United States. He believes that brains are readily acquired if one has money, on the easy assumption that it takes brains to secure money. Local philanthropies can easily cover whatever moral requirements are necessary. Consequently, class distinction oftentimes is hypocritical, for it does not get down to the roots of the ethical question involved. A moment's reflection should make one realize that no amount of local philanthropy can make up for exploitation such as watering of stock, charging too much for electric current, or manipulation and pools in the stock market. Yet on the whole the middle class accepts almost without question those who are successful financially in pool operations or in the public-utility game.

If the middle class could see the economic order as it is, it would tend to question the ethical basis of a great number of the existing fortunes. It is not often realized that the public land grants to our railroads in the early days would make the land holdings of the entire British nobility look small by comparison. Only recently we have seen the tremendous subsidies paid to the millionaires who got behind the development of airplanes. It must not be assumed, therefore, that property power necessarily implies great ability to earn money honestly. We must also recognize that our upper class has certain immunities. On the whole, the popular saying that "it is impossible to convict a million dollars" is true under capitalism. Judge Lindsay of Denver told the writer ten years ago that so far as he knew up to that time he was the only judge in America who had succeeded in imprisoning a millionaire, and he had been able to do it for only one day.

Some of our middle class occasionally refer to the waste of maintaining a king in England or an hereditary upper class of nobility. They do not seem to realize that the cost of maintaining our wealthy class in the United States is probably infinitely more. Due to exploitative devices, monopolies, tariffs, concessions, which we acquiesce in, we are paying for them far greater sums. A. J. Nock, writing on *Our American Upper Class*, says that "It has been differentiated by the one single qualification of success in accumulating wealth." Yet the middle class has tended to read into this accumulation great moral virtues.

#### INTELLECT

Actually, our upper class does not even have to be intelligent in anything except extracting money from others. The comments on the depression made by such leaders as Hoover, Ford, Sloane, Gifford, Dawes, Schwab, Farrell, Strawn, and Wiggin were for the most part unreliable and ridiculous, even if sincere. Charles F. Adams, whose father was minister to England and whose brother was secretary of the navy, says of the multimillionaire: "Not one that I have ever known would I care to meet again, nor is one of them associated in my mind with the idea of humor, thought, or refinement. Mere money-getters and traders, they were essentially unattractive and uninteresting."<sup>26</sup> President Theodore Roosevelt once said: "I have to talk to millionaires but I wish I didn't. They bore me. . . . They know their own business but the moment they stop talking shop they haven't an idea. Outside of money-making they're dumb."<sup>26</sup> Yet many of the middle class regard such leaders as men of great intellectual acumen. The fact is, the social and ethical attitude of any class is colored by its way of life. There is an innate selfishness in groups. The middle class is dependent upon the existing economic structure for its livelihood. This economic factor refracts the attitude and outlook of the group.

#### PRIDE AND PREJUDICE

A great deal has been written and said in American life against individual egoism. We still laud group egoism. It is not

considered good form to make remarks about one's individual ability and prowess, but it is thought perfectly proper to laud one's political party to the skies or to claim one's own college as the best college in the United States if not in the world. Those who did not show a group egotistical spirit during the World War were considered disloyal. Similarly, it is expected that middle-class Americans should believe the economic system under which they live is the best system in the world. Consequently, there is an inherent tendency toward self-deception on the part of the classes, merging into hypocrisy. Joseph Choate, in arguing against the new income-tax law, spoke of it as communistic, socialistic, and populist. Lawyers frequently do not believe the arguments they use. Even in the matter of textbooks written on the economic order this is true. A prominent professor at Yale asked an author of an economics textbook whether he actually believed the theories put forward in the book. "Oh no," replied the author, "I am describing the going economic system and putting forward the theories which are used to justify it. I do not believe the theories are valid myself."<sup>27</sup> However, the college student who uses the textbook is in no position to know that the author did not believe the arguments valid; consequently he may accept them as the belief of the author of the text.

#### CONSERVATISM AND COMFORT

Again, if middle-class privileges or comforts are threatened in any way by workers who are seeking economic justice, the middle class is more impressed by the loss of its comfort than by the claims for justice on the part of the workers. Thus, when a railroad strike was threatened, the Dartmouth daily paper said that every single Dartmouth student would gladly volunteer as a strike-breaker. The middle class for the most part accepts violence as necessary and right when the existing economic order is threatened by labor unions. If violence is used anywhere by a single worker, the middle class feels that the authorities are justified in calling out armed guards or the militia. While the middle class is willing to safeguard the exist-

ing economic order by the use of violence in the hands of the state, it rarely attempts to get back to the causes which produce the violence. Thus they are hypocritical in becoming beneficiaries of violence without changing the conditions which produce it.

All in all, the middle class is as definitely a product of the soil in which it grew as is the cactus the product of desert sand. In a depression period the middle class has been losing ground. It is threatened with loss of income. To the extent that the middle class itself becomes unemployed and loses its savings it tends to lose its smug, complacent, middle-class outlook. For example, one man in his fifties who had had a fine industrial record was offered a job at a higher salary elsewhere prior to the depression. In his reply he said, "I have been with — Company for twenty years and feel that I am too old to change now." Yet only two years after the depression started his concern merged and he was thrown out of a position. Although he had been a stand-pat Republican all his days, he now says he doesn't blame people for being radical.<sup>23</sup>

Countless numbers of the middle class have now fallen into the ranks of the lower classes. Many of them are on relief rolls. The attitudes of these people are slowly changing; they are beginning to doubt the ethics of the capitalistic system. A recent writer, surveying the effects of the depression on the middle class, has this to say: "Viewed even from the most hopeful angle, the plight of the formerly well-to-do unemployed is tragic beyond description. Some will give up and end it all but a great majority will go on living some kind of broken and frustrated lives." <sup>24</sup>

The depression is doing a good deal to undermine the stereotyped ideations of the classes. Still, millions of the middle class remain in relative comfort; their faith in the capitalistic system has not been destroyed, or hardly shaken. The rich have been made to feel poor because some dividends have been lost and stock values have crashed. On the whole, it will take a much more severe panic to destroy faith in the rationalizations which have been built up during the last century. Harold Rugg, professor of education in Teachers College, says: "The veneer of



respectability shelters a whole inner structure which is sheer racketeering aggrandizement." <sup>80</sup>

#### SUMMARY

We may conclude that capitalism has enabled the rich to live luxuriously at the expense of the masses, to rationalize themselves into the conviction that their privileges are the fruits of their abilities. As to the middle classes, capitalism has aided in making them unconscious supporters of the materialistic culture which has been dominant. It has helped them, on the whole, to acquiesce in being beneficiaries of a system which has exploited the working classes and to rationalize their own comforts and privileges without assuming the obligations which in a democracy they owe to the masses of the people.

## CHAPTER XXII

### THE FARMERS UNDER CAPITALISM

THOSE who raise the food we consume are indispensable to our existence. They are infinitely more important than soldiers. The latter merely indulge in the expensive and wasteful luxury of shooting to death those whom the nation thinks it hates; the latter constructively keep all the people from starving to death. Curiously enough, we provide a bonus and pensions for soldiers and keep in relative poverty and misery the farmers. In reality every citizen owes a debt to the farmers who under present conditions might well be considered peace time patriotic heroes.

Between 1910 and 1920 industry passed agriculture in number of employees in proportion to the total population. By 1930 this ratio was 14.5 per cent for industry and only 10.6 per cent for agriculture. America had come of age as an industrial nation. Nevertheless, of the total of roughly 49,000,000 gainfully employed workers over ten years of age almost 10,500,000 were still in agriculture in 1930. Of these 2,911,000 were full owners of farms, 656,000 were part owners, 55,000 were managers, while 2,664,000 were tenants and over 4,000,000 were farm laborers. These workers with their families made up over 30,000,000 people, one-fourth of the population of the United States.

#### AFFLUENCE

One test of a capitalistic economy is the way it has treated the farmers and workers who together make up the bulk of the population. Let us consider first the condition of the former.

It must be recognized at once that many farmers have meager holdings: 38,000 have less than three acres apiece; 283,000 have from three to nine acres; 515,000 have from ten to nineteen acres; 1,359,000 have from twenty to forty-nine acres; 1,321,000 have from fifty to ninety-nine acres; while 1,300,000 have 100

to 174 acres. It can thus be seen that nearly 2,200,000 of the farms have less than 50 acres. On the other extreme we find 3,946 farms with over 10,000 acres; 5,130 with from 5,000 to 9,999 acres; and 69,385 with from 1,000 to 4,999 acres.<sup>1</sup>

The United States department of agriculture, in 1928,<sup>2</sup> after an exhaustive study of 14,000 farm families for a period of four years, decided that the absolute minimum required to keep a family of five in health and decency was \$1,800, of which they declared \$600 could be in farm products. Any family receiving less than \$1,300 was not only below the health and decency level but was probably in the starvation zone; certainly it was in bitter and abject poverty.

How have the farmers of the country fared during the era of prosperity? A study made by the National Bureau of Economic Research<sup>3</sup> shows that from 1919 to 1927 not once was the average farm income for a family above \$1,634 and the average for the entire period was only \$740. The table follows:

INCOME OF FARM FAMILIES

Year	Total income in millions of current dollars	Income per farm family
1919	\$ 7,831	\$1,228
1920	10,429	1,634
1921	755	118
1922	5,400	861
1923	4,911	780
1924	3,144	496
1925	1,651	261
1926	6,265	1,010
1927	7,810	1,275

In 1929 nearly half of the nation's 6,000,000 farms produced less than \$1,000 worth of products, even including all that was consumed on the farms. The detailed figures for 1929 follow:<sup>4</sup>

Number of farms	Percentage of all farms	Value of products
400,000	6.6	Up to \$250
518,000	8.6	\$250-399
766,000	12.7	\$400-599
1,245,000	21.8	\$600-999
938,000	15.6	\$1000-1,499

Not only do farm families suffer, but the earnings of farm laborers are notoriously low. Even in July, 1929, they only averaged \$50 without board, and July is one of the highest paid months in the year.<sup>5</sup>

#### LUXURIES

With such a low income farm families and farm laborers must spend nearly all their money for food and clothing. A study made by the department of agriculture<sup>6</sup> of 2,886 families in eleven states in 1926 whose average income was \$1,598 shows what this means. This amount was so low that the families averaged only \$41 a year on personal goods, including all toilet articles, tobacco, candy, Christmas and birthday presents, as well as all forms of recreation. It is obvious that under these circumstances the farmer's family cannot travel much for pleasure! For insurance, in all its forms including fire and life, the average family was also limited to \$41. How is it possible to provide insurance against disaster, illness and old age under these circumstances?

In 1930 the department made a study<sup>6</sup> of 203 farm families in Kentucky to find that they spent an average of but \$689 a year. This meant they used only \$18 on personal goods and \$3 on insurance. The figures speak for themselves; inevitably the average farmer must spend his income for the bare necessities of life, and these are inadequate. An investigation made<sup>7</sup> by the Children's Bureau of the United States department of labor of 256 children between the ages of two and eleven living on the farm lands of Kentucky showed that 26 per cent of these from families with the highest income did not have an adequate diet, although 98 per cent of these children had adequate clothing. Of the middle-class group 70 per cent had inadequate diet and 69 per cent inadequate clothing. Of the very poor 88 per cent had inadequate diet and 99 per cent had inadequate clothing.

Because of the extreme poverty of the farmers they have to live in woefully defective houses. An expert of the Children's Bureau describes the ones in Montana as follows:

Small and crowded houses are the rule rather than the exception in the area studied; and this despite the fact that the majority of the people

have high standards in regard to housing and sanitation. . . . In the breaks nearly everyone lived in a log house. Elsewhere, the prevailing types were divided about evenly among the dugout, the tar paper shack, the sod house and the gumbo (clay) houses.<sup>8</sup>

In many other states the houses are better but the majority everywhere are inadequate.

#### HEALTH

Inevitably concomitants of low incomes, poor diet, and bad housing are unsanitary conditions and disease. Capitalism, since it has no planned allocation of medical skill, has a tendency to drain the doctors off into the urban areas where there are more comforts and higher incomes, so that almost everywhere in the rural field one finds inadequate medical facilities. For instance, in one county in Georgia there were only seven physicians for 12,000 people. In 5,500 square miles in Montana there was no hospital and only three registered doctors. Over one-third of all the families were over twenty miles from a doctor, some as far as fifty to one hundred miles away.<sup>9</sup>

Under such conditions the life of the women is particularly hard. Besides grinding poverty most of them have to endure grinding drudgery and the children are not protected by the child-labor laws which apply in industrial centers. Inadequate schools, few books, and scant opportunity for recreation quite generally spell cultural poverty as well.

#### IMPROVEMENT

The condition of the farmer, taken as a whole, has unfortunately been growing worse since 1920. In 1919 the farmer received 18.5 per cent of the national income, but by 1928 this had dropped to 9.3 per cent and in 1932 to only about 8 per cent. As illustrative of what happened to the farmer during the depression consider the price of bread. In 1928 bread sold for about \$0.09 a loaf and of this the farmer received about \$0.02. In 1932 when the price of bread had dropped to about \$0.067 the farmer only received \$0.006 a loaf.<sup>10</sup>

By 1934 the condition of the farmer had improved slightly.

To be sure, the "exchange value of a given quantity of farm products for a given quantity of commodities" was only about 61 per cent of the 1910 to 1914 average, but cash income had increased so that there was perhaps a 25 per cent gain in the actual purchasing power of the farmer<sup>11</sup> over 1932, although it must be remembered that the latter was a starvation year.

### BOUNTY

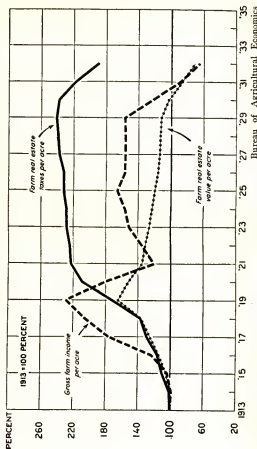
From 1920 to 1932 the value of farm land fell nearly one-half. Mortgages and taxes were just as high or higher in the depression, so that to meet his bills the farmer was forced to keep on producing at top speed. The exact situation is graphically portrayed on Chart VIII. Industry had curtailed production nearly 50 per cent but the farmer had reduced his crops by only 4.6 per cent. Industry was able to turn its labor force into the streets to starve or subsist on charity, but the farmer was unable to dispense with his chief aides—his own brawn and that of his family. Moreover, while machinery can lie idle, it is more difficult to feed livestock and remain solvent without production or sales. Listen to the complaints of actual farmers in 1932:

C. C. T. (South Dakota). I have been raising cattle and farming for forty years in South Dakota. I made \$100,000, and within the last seven years I have lost it all. It has been continuous loss for seven years. I have a thousand acres under cultivation. This year returns will not pay taxes and insurance. It will take 75 per cent of the crops raised in South Dakota to pay the taxes this year. This is an impossible load. The most substantial farmers cannot pay their taxes this year. Equipment costs are just as impossible. In 1904 I sold wheat for \$1.05 per bushel and corn for 47 cents. I bought a wagon for \$48 and a binder for \$92. Today wheat is 30 cents a bushel; a binder costs \$245, and a wagon \$145. I am going to hold on as long as I can but at the present rate it will not be long until the loan company takes my farm.

*A bankrupt farmer.* Hard luck with stock and crops is one thing. Farmers know they have to face that, even with the most careful and scientific methods of working their places. But the thing that kills is the realization that good crops are worthless and that, now, crops and ordinary hard luck simply do not matter compared to the major tragedy of famine in the face of plenty.

CHART VIII

INDEXES OF FARM REAL ESTATE TAXES PER ACRE, REAL ESTATE VALUE PER ACRE  
AND GROSS INCOME PER ACRE, UNITED STATES, 1913-1932



Farm real estate taxes per acre reached the highest point in 1929. Since that time they have declined relatively less than either gross income per acre from farm production or farm real estate value per acre.

In that time [four years], off of the 180-acre farm which I had rented I have raised and marketed 1,520 tons of sugar beets. That would make 456,000 pounds of sugar. That is enough sugar to last four thousand people one year. Yet my family has been out of sugar for three days, and nothing to buy any with.

I have fed and marketed 430 head of fat cattle. The meat that I put on those cattle would amount to 135,000 pounds of beef. That is enough beef to last 2,076 people one year. And I haven't a bit of meat in the house, and nothing to buy any with.

I have raised and marketed 1,200 head of hogs. That would make 240,000 pounds of pork. That is enough pork to last 3,000 people one year, and I am out of pork, lard and money.

It all came about through no fault of my own, but by an economic system that is bleeding the people and giving the fat of the land to the gigantic corporations. And they have put in great machines and stolen from me, and millions of others, the chance to work to buy our little ones a crust.

G. W. K. (North Dakota). He is known as one of the best farmers in the country. He has never speculated in land or in the markets. Has had no children and consequently no large living expense. In 1922 he had his farm entirely clear of encumbrance and a surplus of ten thousand dollars in cash. After ten years of decreasing prices and increasing taxes he is almost ten thousand dollars in debt. During this decade, according to his statement, he has worked harder and planned more carefully than ever before. At the present cash market evaluation his 640-acre farm would not liquidate his indebtedness. After fifty years of toil he and his wife face an old age penury.<sup>12</sup>

No wonder that the president of the National Farmers' Union, John A. Simpson, after obtaining prices from ten shipping centers, declared in 1932:

I found the average price of oats to be 8 cents. One bushel of oats would buy two postage stamps and two postcards. I found the average price of wheat to be 25 cents. . . . If a farmer wanted one grain binder he would have to sell 1,000 bushels of wheat. It takes nearly 4 pounds of butter fat to buy one pound of coffee. Eggs averaged in these 10 towns 6 cents per dozen. For a farmer to buy a good toothbrush he would have to sell 8 dozen eggs and then he would owe 2 cents. A farmer must sell 40 pounds of cotton to buy a good shirt.<sup>12</sup>



The fact is that 42 per cent of all American farms are mortgaged to an aggregate of some \$8,500,000,000. By 1933 the farmer's taxes had increased 50 per cent above the prewar level, while articles to be purchased cost 10 per cent more and farm income had been cut about in half. No wonder his situation was desperate.<sup>13</sup> The chart on the opposite page graphically portrays the farmers' disadvantage.

#### TENANCY

Since 1880, when the first census of tenant farmers was taken, the number of tenants has been increasing steadily, and rather alarmingly in the recent depression. It will be remembered that under the feudal system all landholders were nominally tenants. In the United States we seem to be gradually reverting to a feudal system of farm tenancy. The 1930 Census reports that 42.4 per cent of the farms are operated by tenants. Of these 489,000 paid a cash rental; 776,000 paid part of their crop as a rental; while the census records 1,398,000 other tenants.

In the period from 1900 to 1920 there was only approximately one farm failure for every 10,000 farms; from 1927 to 1932, 9.5 per cent of all farms were sold because farmers could not meet their mortgages and 3.5 per cent of all farms were sold because of failure to meet taxes.<sup>14</sup>

#### DUE PROCESS

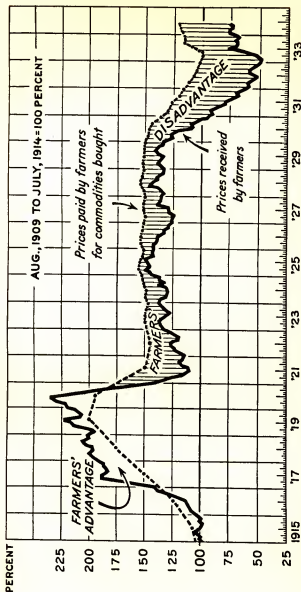
The depression has struck the farmers a terrific blow. Thousands and thousands of farms have been taken over by insurance companies, banks, and others. From the beginning of 1930 until the end of 1932 the Aetna Life Insurance Company alone acquired over \$9,000,000 worth of farm properties.<sup>15</sup>

At various times during the depression the farmers have gone on strike; sometimes they have refused to permit their homes to be foreclosed. President John A. Simpson of the National Farmers' Union told the farmers:

Our strike has reached the attention of eastern financiers as no other farm movement has. It is because a few of our farmers have been shot at. Let them kill a few of us if it will do any good. Governments, courts, laws, and constitutions are inferior to human rights. . . . My authority

CHART IX

INDEX OF PRICES RECEIVED AND PAID BY FARMERS



for this statement is the Declaration of Independence. Under this same authority you have the right to take up shot guns and prevent the big robbers from taking your farms.<sup>16</sup>

So widespread was the unrest that Congress in 1934 passed an act providing for a five-year moratorium on farm mortgages. Nevertheless, the farmers are beginning to wonder if they ever again will be in a position to pay their debts. R. G. Tugwell, undersecretary of agriculture, says, "If we except China, nowhere can there be found in the older countries of the world a population which faces so hopeless a future as do these American farmers."<sup>17</sup>

#### PROTECTION

How does it happen that the condition of the farmers has become so tragic? Capitalism cannot escape its responsibility. Even the United States Chamber of Commerce recognizes this when it declares:

This country cannot be permanently prosperous until it has a reasonably prosperous agricultural population. Ten million workers and thirty million people are dependent upon the farm for their support. A large proportion, perhaps the majority, are receiving meager return for long and arduous labor.<sup>18</sup>

Capitalism is directly accountable for the plight of the farmer because of its tariff policy. It might be argued that as far back as 1812 there may have been some justification for a tariff to prevent the emerging manufacturing establishments from being killed off by competition from the large industrial concerns across the seas. If this is true, certainly by 1850 manufacturing was sufficiently developed so that it might have stood on its own feet. In fact the tariff was reduced in 1846 and again in 1857. When the Civil War came, however, it gave the northern states a chance to build up a high tariff again, and almost ever since America has been the leading exponent of the high-tariff theory. The strongest argument for a tariff, that it is necessary to help infant industries, thus becomes the strongest argument against it. For when the infants grow up they become so powerful that they block nearly all the attempts of the people to abolish their tariffs.

Manufacturers do not impose a tariff for philanthropic purposes. Tariffs prevent foreign competition on manufactured goods. Since this blocks the importation of foreign goods it tends to create scarcity in the domestic market, which increases prices. The increase of prices means high profits. Profits are not created by magic. They have to come out of someone's pockets. In the case of a tariff they come out of the pockets of the consumers who do not have tariff protection. The farmers represent the largest number of those gainfully employed who do not have tariff protection. Of course, for purposes of diplomacy, the manufacturer claims the farmer is also protected by the tariff, but he knows this is mere rhetoric. For instance, there may be a tariff on wheat. Since, however, the farmer is exporting his wheat abroad a tariff on wheat is of no value to him. Cotton, corn, wheat, hay, oats, barley, rye, chickens, livestock of all kinds—none of these articles of production profit from a tariff. The farmer produces such articles. On the other hand, when the farmer purchases household furnishings or machinery for his farm he has to pay a price which has been made higher because of the import duty. If he purchases sheets, blankets, woolen and leather goods, automobiles, even fertilizer, all these products may be high for the same reason.

The tariff also tends to hit the farmer because it reduces his export market. The only way foreign nations can buy from the United States is by making payments in goods. If there is a high tariff it tends to block the shipment and sale of manufactured goods into the United States. This means that foreign groups cannot purchase agricultural products to the extent they would otherwise have done. This in turn means an increased glut on the domestic market and a fall in the prices of farm products.

Furthermore, there is a tendency for other nations to retaliate because of a high tariff and impose tariff duties themselves. The Italian government, for instance, allows only 5 per cent of the domestic consumption of wheat to be imported. It actually has a duty of \$1.07 a bushel on this wheat. Germany has a duty of \$1.62 per bushel and allows only 3 per cent of her domestic consumption to be imported. France has cut the import quota

to only 1 per cent, and maintains a duty of 85 per cent. Belgium, Norway, Sweden, Spain, and the Netherlands all have quotas for wheat; England actually pays wheat growers \$1.00 a bushel as a bounty.<sup>19</sup>

#### INCREASING INSECURITY

In spite of the disastrous effect of the tariff the farmers on the whole have been extremely loyal to the very financial interests which have been exploiting them. On the whole they vote the Republican ticket and endorse a tariff. It is only recently that they have begun to see the effect of the tariff policy and to revolt from the Republican banner. Probably one reason why the farmers in the United States have submitted for so long to capitalistic exploitation has been that the value of their farms has been rising. This is due to the gradual exhaustion of good farm land, to the increase of population, and the consequent increase in the value of farm property. Now, however, the situation of the farmer in this one favorable respect has definitely changed. Immigration has been reduced to inconsequential proportions. This in its turn has had the effect of reducing the market for farmers' supplies and at the same time reducing the potential demand for land. In the past few years also the diet of the American people has been changing; less wheat is consumed. Since the World War we have had a credit reversal. European nations now owe the United States large sums and are no longer in a position to buy farm products as they have done in the past.

#### GOVERNMENT AID

The farmers' situation has also been made more difficult because of reclamation projects which have increased the total amount of agricultural land. Between 1910 and 1920 acreage increased 9 per cent. In these same ten years there was an increase of 5,000,000 acres of irrigated lands. On the other hand, capitalism has done little to take collective action to prevent soil erosion. In fact, Undersecretary of Agriculture Tugwell says that erosion has utterly ruined 30,000,000 acres of land and has brought abject poverty to the farmers.<sup>20</sup>

## MODERNIZATION

The war pushed up the prices for agricultural products which we sold to Europe. In this era the farmer acquiesced in various community improvement projects, such as hospitals and university extension activities. He may have electrified his home and invested in automobiles and agricultural equipment. Now that the depression has ended the era in which the American people were loaning money to Europe which they could never expect to receive back, the farmer is suffering seriously. His taxes have been raised because of the improvements, his debts have increased from \$3,300,000,000 to \$9,500,000,000 in 1931. In 1931 taxes used up approximately 11 per cent of the gross farm income, in contrast with about 4 per cent in the prewar years. It was impossible for the farmer to meet these charges. Over 10 per cent of the farms of the country changed hands through forced sales in the six years ending March 1, 1933. The value of the land had also shrunk appallingly. Taking the estimated value per acre for the period, 1912 to 1914, as 100, farm land was worth 170 in 1920 and only 73 on March 1, 1933.

## TAX RELIEF

Unfortunately for the farmer, the general property tax which covers the schools and local government is based largely on land and buildings, not on stocks and bonds. Consequently the farmer's taxes have kept up, while his sales have been shrinking to vanishing proportions. Professor Mabel Newcomer of Vassar College in 1930 published a table showing the increase of taxes for the farmer while rent was decreasing.

COMPARATIVE TAX BURDENS OF FARMERS IN TERMS OF DOLLARS OF CONSTANT PURCHASING POWER <sup>21</sup>

Year	Taxes	Relative index of rent	Rent after deduction of taxes
1909	100	100	100
1919	126	259	279
1927-1928	211	111	95

This has had the effect of forcing an increasing number of farmers to become renters.

## SUBSIDY

It is probably not unfair to say that the farmers of the United States have helped to finance the upbuilding of American capitalism and have paid the major burden of capitalistic construction. From 1850 to 1900 the United States was being transformed from an agricultural into an industrial economy. During this period the farmers exported their products at low prices, while the manufacturers built up the industrial life of the country by charging high prices to the farmers and shutting out competition by high tariffs. Soviet Russia is now engaged in the process of industrializing the country at the expense of the Russian peasants. In this her policy is not so different from that which has been followed in the United States by the capitalistic interests—except that in the end the Soviet Union claims to aim to reduce the cost of all manufactured goods to the peasants and she rigidly controls profits.

## EXCHANGE

Evidence from all over the United States has shown that in the past the farmers have had to sell their products for little or nothing and yet pay for manufactured goods at high protective-tariff prices. In Oklahoma in 1932 a farmer had to pay at the ratio of sixteen dozen eggs for a pair of overalls, a bushel of wheat for a wick of an oil stove, two pounds of butter for a small felt washer for the tractor. In Maryland a farmer had to pay the equivalent of a bushel of wheat for one package of Cream of Wheat. Even the chain stores forced the farmers to sell to them at the prevalent low, often below cost prices, and yet turned around and sold their products at the high retail prices of towns and cities. No wonder that all over the country there were reports of farmers who after shipping their grain or live products received nothing in return above the cost of hired help and shipment. Sometimes the freight and storage charges alone were higher than the prices received for the articles. Recently *The Atlantic Monthly*<sup>22</sup> published a series of letters from farm homes in which many concrete examples are given. In Oklahoma one farmer who sold his crops of wheat on seventy-five acres of land

at \$0.35 a bushel had only \$12 left above expenses. The first man to succeed in raising wheat on a profitable basis in one district was reported in 1932 to have lost his 960 acres of land and most of his livestock as well.

#### CHARITY

In Oklahoma in 1932 the Red Cross sent out an appeal to the farmers to donate some of their wheat free to be used in northern states to aid the starving. The appeal stated that the railroads had agreed to ship this free. Many of the farmers worked hard and sacrificed to donate their wheat, even transporting it to the railroad free, and 1,200 bushels were finally delivered. After all this the railroads refused to transport it without cost, so only a few paltry dollars were actually used for relief purposes. Here again the profit motivation prevented the railroads from shipping. Excessive railroad charges because of improper financing and watered stock have regularly taken toll from the farmers' products. In effect the farmer has been compelled to help make good on the watered stock of the railroads.

#### PROFITS

Capitalism has also permitted such a poor distribution system, as has been noted, that the farmer receives a grossly inadequate proportion of the retail price of a product. Consider milk, for instance. In many places milk reaches the consumer at from nine to fourteen cents a quart. The farmer gets perhaps 37 per cent of this amount, whereas fifteen years ago he was getting from 50 to 60 per cent. This does not tell the whole story, however, as he may only get two cents a quart for his "surplus" milk which he cannot sell at the higher price. B. H. Hibbard, professor of agricultural economics at the University of Wisconsin, maintains that the blended price for all his products, therefore, may average only three cents a quart. Yet while the farmer has been growing poorer, failing to pay his taxes and losing his farm, the accountants of the federal department of agriculture have shown that four of the largest city milk dealers



made a return of 23 per cent on capital invested during the past four years and 14 per cent in 1933.<sup>23</sup>

#### SUPPORT

In building capitalism in the latter part of the nineteenth century up to the beginning of the World War America had to pay large sums of money which had been borrowed from European countries. The only way the interest on these sums could be paid was by shipping agricultural products abroad. Consequently, the American farmer sent his wheat and meats abroad. He expanded production in these commodities so as to permit the steel magnates, the railroad trusts, to complete their industrial plants. R. G. Tugwell says, "Millions of acres of our top soil have gone overseas in the form of cheap grains, lard, tobacco and cotton."<sup>24</sup>

Bullock, Williams and Tucker have prepared figures<sup>25</sup> showing that from 1874 to 1895 the sale of international obligations resulted in our being a debtor nation to the tune of over \$1,000,000,000. The industrialists reaped huge sums from our farmers. They in turn were kept from bankruptcy by the increase of debts on land values which were increasing because of the slow exhaustion of all except marginal land. Today, with Europe trying to be self-sufficient, it is doubtful if even the New Deal is sufficient permanently to change the status of the farmer under capitalism.

#### COMMON SENSE

The Democratic administration is attempting to reestablish higher prices for basic farm products. This is to be accomplished by acreage reduction, by refinancing of farm mortgages, by a partial inflation of the currency, and by tariff reciprocity treaties. Will an attempt to create scarcity of products permanently solve the farmers' problems under a capitalistic economy?

The Agricultural Adjustment Act of 1933 provides that farmers may voluntarily cut their production of wheat, cotton, hogs, field corn, rice, and tobacco according to a government plan. Those who do reduce their crops will receive a bonus on a part of the crops which they raise. For example, the farmer was sup-

posed to reduce his wheat crop by 15 per cent in 1934 and those that complied received 28 cents a bushel on 54 per cent of their usual crop, besides the price for which they sold it. The government pays this money by placing a processing tax on every bushel of wheat bought by the flour mills.

How did the farmers respond to this plan? Over a million cotton growers, representing roughly 73 per cent of the cotton acreage, signed government contracts and plowed under what would have amounted to 4,400,000 bales of cotton. Farmers representing some 77 per cent of the wheat acreage agreed to the government plan. In addition about 275,000 of the tobacco growers signed contracts and 1,500,000 of the corn-hog producers. Nevertheless, there is no assurance the plan will be a success.

In the first place there is the continual threat that the whole program will be thrown overboard at a subsequent election through pressure of the industrialists and financiers, and high tariff interests generally. Sooner or later there may be a reaction against the New Deal program which will throw into the discard any gain for the farmer.

In the second place acreage reduction, plowing under of cotton or wheat, may not mean a permanent reduction in all forms of agricultural products. There may be a shifting from protected crops to nonprotected crops. Furthermore, if prices go up there is nothing to prevent the unemployed from starting to raise products on the millions of acres of marginal land which are still capable of cultivation. Indeed, to some extent, the Democratic administration is committed to inducing laborers from the cities to settle on the land and produce enough for their own subsistence. To the extent that this is done on a wide scale it reduces the potential demand for farm products and offsets the shrinkage in plowed land.

In the third place it is quite possible that farmers may deceive the local control boards and raise crops on land which they agreed not to or they may so intensively cultivate the land they do use that they will raise almost as much as before.

In the fourth place the indications are that the selling price of articles has been raised all out of proportion to the processing

tax so that in effect the consumer is paying a sales tax. The farmer, unfortunately, is a consumer; the capitalists, acting under the profit spur, have raised prices as fast and as far as they dared. Overalls, for instance, are about double the 1932 price. Gasoline for tractors in Oklahoma costs twice as much. Tires for trucks have jumped from \$15 to \$21.

Finally, the whole plan of reducing the production of farm products while millions of American citizens are in want is a demonstration of the defects of the capitalistic system which even many farmers are beginning to see.

The contradictions in the plan are apparent. For a time the administration was attempting to reduce the number of cattle. Thousands of cattle were to be destroyed to cut down the "surplus." In Arkansas, on the other hand, the relief administration was placing unemployed workers on farm colonies. The state authorities finally persuaded the government to send down to Arkansas the surplus cattle from Dakota. So you have the spectacle of the government creating scarcity in Dakota and encouraging the unemployed to create a surplus of cattle in Arkansas. In Texas the government has started a cannery to process surplus cattle. While private canneries are being closed down the government is building new canneries and canning beef.

Apparently, in the first year of the plan cotton, corn, and wheat (helped on by the drought) have made impressive price increases; but the price of hogs has dropped—the public can easily substitute some other product for pork if the prices are high. As a result the farmer is virtually left to pay his own processing tax on hogs. In Lawrence County, Indiana, for instance, a particular farmer by the name of John H——, who specialized in raising hogs, found that the more hogs he shipped to the Indianapolis Live Stock Market the more money he owed. The code of the N.R.A. had so forced up the price of trucking that even without counting the costs of the feed, there was no return on his meat. One man actually sent in a truckload of hogs and got a bill for the balance due. He sarcastically replied that he had no more money but could send more hogs.<sup>26</sup>

Under capitalism it is probably impossible for any government

to plan consistently for the welfare of the nation as a whole. It will be noted that the Roosevelt administration is at one and the same time

a. Paying millions of dollars to farmers to curtail production and destroy crops.

b. Building the Columbia River Dam to increase available farm land to the extent of millions of acres.

c. Setting up the unemployed as subsistence farmers.

d. Aiding the farmers to increase their crops by more intensive scientific cultivation through free seeds and free advice from the department of agriculture.

If we do have inflation, while this might temporarily aid the farmer in paying his mortgages, it would also mean that he would be caught again in the high prices for the finished goods which he has to buy.

### THE OUTLOOK

As we have seen, statistical studies show that the farmers' total cost of living per family even from 1919 to 1930 was inadequate. Further studies made by Professor Kirkpatrick of Wisconsin<sup>27</sup> show that if a farmer had an income of \$1,091 a year, counting the value of the products that he raised and used, even then he would have to spend \$695 in cash for purchases. It is easy to see what would happen to the farmers if serious inflation occurred. The cost of all their purchases would probably jump to a point that would more than offset the higher prices which they would receive for their products.

H. H. Stevens, the Conservative Party Minister of Trade and Commerce in Canada, says that what happened to the tobacco farmer during the depression is *typical* of the way he has been exploited. The Imperial Tobacco Company over the years put \$14,000,000 in cash into their business and has today stock worth on the market \$100,000,000. In 1930 they paid an average of 33 cents a pound for tobacco. In 1931 they brought in what Minister Stevens called "a typical bull-dozing American buyer" and cut the rates paid the farmers almost in half to 19 cents. In 1932 and 1933 they forced the farmers to part with their crop at the

ruinous rates of 16 or 17 cents a pound. The chief Company buyer, on the other hand, received \$90,000 in 1930 although the Minister of Trade said that outside of this activity he would "guarantee" the man could not earn \$10,000.

As a result of such methods together with cutting the wages of their factory employees 10 per cent, they averaged \$6,000,000 a year in profits after providing for liberal reserves, during the five years of the depression. Hon. H. H. Stevens concludes this picture by saying, "On the one hand you have fabulous earnings and fabulous wealth for the companies with the farmers cut down to the very verge of starvation. Scores were forced to leave their homes." <sup>28</sup>

This is the type of exploitation that capitalism can never entirely prevent because it is inherent in the very heart of the right freely to seek and win profits.

The strikes of farmers, the violence attendant on foreclosures, and the growth of radical sentiment are a portent of difficulty. When serious and highminded farmers are willing to take time off to destroy property on the public highway society should take time off to appraise the capitalistic economy carefully.

In the light of all the evidence it is hard to see how the farmer can permanently secure a high standard of living under capitalism. The desire for profits on the part of the industrialists, the transportation companies, and the public-utility interests generally will take off so much cream that the farmer will be left with only the skim milk.

Furthermore, the individualistic spirit so carefully fostered by capitalism has never been eradicated in the farmer. By the very nature of rural life the farmer tends to "go it alone." Being in a minority, he is likely to be squeezed by the capitalist on the one side and by his own lack of understanding of the necessity for the class struggle on the other.

While the farmer may gain temporary periods of prosperity should war arise, or in certain other periods of economic change, in the long run it seems inconceivable that while he permits capitalistic interests to be the master of the economic life he can escape intermittent poverty and financial difficulty.

## CHAPTER XXIII

### THE WORKER AND THE DOUBLE STANDARD OF MORALITY

IF A gigantic panorama of the working life of America could be constructed, similar to the panorama of the Battle of Gettysburg, then one could sense something of the dynamic, epic character of the struggle which cold figures can never give. For capitalism makes inevitable a class struggle between the owners and employers on the one side and the wage earners on the other. The reality of this conflict cannot be questioned. In 1933 alone there were 1,562 strikes averaging 520 employees per dispute, and 1934 probably surpassed that record.<sup>1</sup>

Listen to a few comments from the press:

In Minneapolis forty-five workers are shot by the police, forty in the back, and at least one is killed. Martial law is declared.

In the Pittsburgh area the great steel, coal, and automobile companies have used armed guards, barrages of tear and bombing gas, and lead against the militant workers.

In the state of Washington vigilantes composed of national guardsmen, American Legionnaires, state police and deputies, have taken strike leaders out of jail, beaten, tarred, and feathered them.

In the Imperial Valley, California, 400 lettuce pickers on strike for a twenty- to thirty-cents an hour wage have been arrested and their leaders beaten.

This struggle is inherent and fundamental under the capitalistic system. It can be modified or suppressed, but not really eliminated while capitalism remains, for the profit drive inevitably tends to make employers pare the wages of workers and to exploit them. Consider what happened to wages, for instance, during the present depression.

Wage earners' income in mining, manufacturing, construction, steam railroads, Pullman, railway express, and water transportation fell 32 per cent from 1929 to 1932; that of all salaried employees in the same industries fell only 15 per cent. The total amount paid out in wages fell even more drastically to 39.8 per cent of the 1929 figure, whereas the same figure for salaries was 59.3 per cent.<sup>2</sup>

Dr. Frank K. Shuttleworth, a research expert at Yale University, believes the situation even worse than that portrayed above if we consider real wages. He finds that teachers' salaries rose 13.8 per cent during the first three years of the depression; during the same period the real income of wage workers was cut 46 per cent.<sup>3</sup> Teachers, of course, were cut later.

Before considering further concrete evidence of the exploitation of labor let us analyze briefly the class composition of the population. Scattered over America, with heavy concentrations in a motley array of urban centers, are 62,100,000 males and 60,600,000 females, of whom some 24,000,000 are boys and girls under ten years of age. It will be remembered that roughly 49,000,000 are gainfully employed (although this includes 10,000,000 or more who are still hopefully looking for work). Of the total, 10,500,000 are in agriculture, 14,500,000 in manufacturing and mechanical industry, and 4,400,000 in transportation. Of much more fundamental importance is the social-economic grouping of these workers. Out of every 100, 28.7 are engaged in the performance of coarse, heavy work, 16.3 are engaged in tasks which require a short period of preliminary training, 12.9 are skilled workers and foremen, 16.3 are clerks, 12.3 are farmers, 7.5 are proprietors, managers, and officials, and 6 are professional persons. This means that 86.5 per cent are farmers, clerks, skilled, semiskilled, or unskilled workers.<sup>4</sup> In reality, fewer than 8 out of every 100 are the proprietors, managers, and officials who direct the working forces of America. This 8 per cent, together with a handful of retired capitalists, are the working masters of American life and draw the big financial returns.

We are here primarily concerned with the question, how does capitalistic America treat her millions of industrial workers? In some respects they are better off than in the days of feudalism. They have the right to vote and have a vast conglomeration of articles, from automobiles to radios, which many of them consider necessities. On the other hand, their situation is probably more precarious. They are not certain of being cared for throughout the year, or even of being permitted to continue to live in their homes; evictions are a commonplace.

In briefly describing the plight of the workers no attempt is made to claim that all the conditions sketched are necessarily due to capitalism, but only that part of them are. On the other hand the cumulative evidence presented shows that capitalism, by its inherent nature, tends to exploit the workers. Most of the maladjustments could be changed if mankind used its present intelligence in the service of all the people instead of in the service of profits for the few.

### RIGHTS

When we consider the economic factors which surround the wage earners, we at once recognize that there is in some senses a double standard, one for the employer and another for the wage earner, for the status of the wage worker is vastly inferior to that of the employer. The former has virtually only two rights on the job, one the right to leave his work and the other to join with others in a labor union. As far as the first is concerned it may not always be a real right, for leaving a job may mean in practice only the right to starve. Furthermore, if an individual leaves his work *en masse* with his fellows he is said to have caused a strike. Strikes are psychologically and legally hedged about with a great variety of restrictions, not to mention the powerful weapon of economic coercion.

The second right, to organize with his fellows, is also circumscribed by a large number of difficulties. In actual practice organization may mean discharge. Even when a worker is protected by the N.R.A. or the United States department of labor the protection may be more theoretical than real. Actually, since the



employer has all the funds, he may discharge the worker, using any form of subterfuge for an excuse.

Pearl Bergoff is an executive in New York City who specializes in furnishing armed strike-breakers to corporations in distress. He has received hundreds of thousands of dollars for doing so from many of the most prominent concerns in the United States. *Fortune* in 1935 declared, "For fifty thousand dollars he'd give you an absolute guarantee that he would break the strike, smash the union, and leave you undisputed master of your plant." 44

The fact is that the employer has nearly all the rights in the industrial process. He can make all the decisions. He can close down the business if he wishes to. He can employ spies constantly to report on the wage worker, but it would be considered highly unethical for the worker to employ spies to watch the employer.

#### GOVERNMENT AID

Even if the wage worker succeeds in building a labor organization it can be demoralized in a depression period. All the employer has to do is to close his plant and when he reopens refuse to take on those who did belong to the union. If the wage worker declares a strike his right to picket is narrowly limited; usually not more than a handful of workers are allowed to picket, and in some states the courts have ruled that there is no such thing as peaceful picketing. In the case of *Duplex vs. Deering* the Supreme Court held that wage workers in one industry could not try to help those in another by refusing to handle nonunion goods. Often governmental forces are used to aid the employers in a strike situation; for example, in Kenosha, Wisconsin, when the hosiery workers struck against the Allen-A Company, the police harassed the strikers, stopped picketing, and arrested scores. This illustration could be duplicated many times over. In San Francisco the general strike of 1934 was largely caused by the longshoremen's desire to organize into a union—as they were legally entitled to do under the N.R.A.

There has also been a long and constant struggle for improvements in working conditions, such as temperature, ventilation,

light, noise, sanitation, and general health conditions. While advances have been made, they have not usually been general until standards were imposed by legislative authority.

#### PACE

In the past fifty years there has been a constant tendency on the part of some employers to speed up the workers. In the silk industry, for instance, in the early days a worker never ran more than two looms, but by 1928 workers were being required to run three, four, five, or six looms, and today even more. In the automobile industry this mechanization has been going on steadily. The Graham-Paige Company, for instance, formerly had one man to each bore grinder, whereas now a single honing machine operated by one man does the work of eighteen.<sup>5</sup> In a nationally known brush company in Toledo one girl now takes the place of 150.

During the past ten years the displacement of workers by machinery has been rapid and widespread. The belt-conveyor system in the automobile industry is geared to produce cars as fast as the human mechanism can stand the strain. The Hudson car goes through in about an hour and a half, the belt moving thirteen feet a minute, over four times as fast as it did ten years ago. Dr. Arthur Feiler, a prominent German educator, in a book on "America Seen Through German Eyes," says:

The conveyor started as a simple means of carrying articles but became a tyrant dominating the workers. When the conveyor is speeded up the workers are forced to follow its dictates and to hurry up their jobs accordingly. . . . The workers are bound to the conveyor the way the galley slaves were bound to the vessel.

#### PAY

When we turn to wages we find that the workers have periodically been in great difficulties. It is true that America has been regarded as the land of high wages. It should be recognized, however, that high wages are not due to the benevolence and good-heartedness of the manufacturers. High wages in the United States have been the inevitable concomitant of the development

of a new and rich continent together with the advance of science, and capitalists have exploited both to their own advantage. American employers on the whole have always fought higher wages; frequently, if strikes occurred, with violence. Even in the case of Ford it seems probable that his motive in increasing wages was to secure the ablest possible labor force rather than to help the workers. We must also remember that it is unfair to contrast wages in the United States with wages in Europe. Whether wages are high or low depends on the cultural standards in a particular country. The Balfour Committee in Great Britain says in its final report: "The idea of a satisfactory standard of living is . . . a highly complex conception into which enter qualitative considerations of habit and customs, taste and racial culture, as well as that of the mere volume of earnings available."<sup>6</sup>

The percentage share which the employees receive of the total income in the United States averaged only 57 per cent from 1918 to 1928, in spite of the large proportion of the population which makes up this group.<sup>7</sup> President Hoover's Commission on Recent Social Trends reports this maldistribution to be unchanged today. "In spite of the deliberate attempts to promote the wider diffusion of wealth, there is little evidence that any radical change in the distribution of wealth has taken place in the country during the past several decades."<sup>8</sup>

In the period of the greatest prosperity which our country has ever experienced, from 1921 to 1929, real wages apparently increased about 13 per cent. Abraham Epstein, in a volume on "Insecurity," summarizes forty-four estimates of minimum family budgets made from 1920 to 1931,<sup>9</sup> of which twelve were prepared by employers' associations, ten by the United States government, and the rest by responsible authorities. Only five estimated the minimum budget necessary for a family as below \$30 a week; thirteen estimates were between \$30 and \$35, and the rest ranged from \$36 to \$50 a week. Epstein believes we cannot be far wrong if we take \$35 per week during this entire period as the absolute minimum. This amount comes to \$1,820 a year. However, the National Industrial Conference Board, an

employers' organization, estimates the average earnings of wage earners from 1920 to 1932, on the basis of fifty weeks' work, as follows: <sup>10</sup>

Year	Twenty-five manufacturing industries	Class I Railroads
1920	\$1,467	\$1,710
1921	1,191	1,548
1922	1,215	1,482
1923	1,330	1,483
1924	1,332	1,465
1925	1,354	1,496
1926	1,371	1,510
1927	1,376	1,523
1928	1,394	1,540
1929	1,426	1,585
1930	1,292	1,538
1931	1,132	1,470
1932	854	1,274
1933	885	1,287

It must be remembered however, that the average worker does not secure fifty weeks of work. W. I. King, in a study for the National Bureau of Economic Research,<sup>11</sup> estimates that the actual annual earnings of wage workers from 1920 to 1928 were as follows:

Year	Manufacturing	Mining and oil	Mercantile	Transportation	All industries, including agricultural, construction, and unclassified
1920	\$1,400	\$1,464	\$1,216	\$1,597	\$1,273
1921	892	1,077	1,159	1,248	983
1922	906	976	1,090	1,179	1,012
1923	1,195	1,408	1,159	1,333	1,150
1924	1,152	1,193	1,214	1,303	1,134
1925	1,195	1,250	1,210	1,387	1,176
1926	1,234	1,324	1,299	1,428	1,217
1927	1,216	1,224	1,262	1,436	1,205
1928	1,140	....	1,276	....	....

It will be noted that in only three years did earnings reach 65 per cent of the minimum standard. Yet since 1929 wages have declined drastically. Professor Paul Douglas who recently

won the international Hart, Schaffner and Marx competition prize for the study of wages, reports that by June of 1932 the real wages of the workers in manufacturing establishments were approximately one-half of what they had been three years before. The bituminous coal miners were receiving only three-tenths of their former amount, while the railroad workers got 54 per cent of what they received in 1924.

#### PROTECTION

Until the present depression the capitalists were so bitterly hostile to the child-labor amendment that they had succeeded in blocking its favorable consideration in nearly every state, and it has not even yet been passed. Similarly, until the depression, hours of labor were notoriously long. Professor Ogburn, a former president of the American Sociological Society and the expert who headed the research work of the Hoover Commission on Social Trends, long ago showed that there was a lag between the time when workmen's compensation laws were needed because of our industrial development and the time when we actually secured these laws. Meanwhile, they were fought by most of the capitalistic interests. Although by 1935 such laws exist in every state except four (Arkansas, Florida, Mississippi, and South Carolina), most of the laws are woefully inadequate. Workers in small establishments do not get compensation in twenty-three states. Payments are usually not made until months after the injury. Often the worker is forced to hire a lawyer and he frequently has to pay for medical testimony to disprove the statements of the employers or the insurance companies. For part of these many inadequacies capitalism cannot escape responsibility. According to the Prudential Insurance Company of America, the mortality rate from both accidents and disease in the iron and steel industry was twice the rate in general manufacturing. A safety technician, in a meeting of the National Safety Congress, once charged openly that the Illinois Steel Company, a United States Steel subsidiary, used to employ a photographer for the purpose of shifting the blame for accidents to the workers.<sup>12</sup>

## SECURITY

In the matter of old age the workers are left, through no fault of their own, with no provision for care after the industrial machine has scrapped their services. Since the workers toil for others and not for themselves as in the pioneer days, they tend to be thrown on the industrial scrapheap at an early age. A study made by the department of industrial relations of California of 2,808 establishments, with 534,608 workers, disclosed that there were definite upper age limits in the employment policy in engaging 39 per cent of this total. "Fifty years was the maximum hiring age limit reported most frequently. Next to this age limit, 40 years, and 35 and 45 years in the order named."<sup>13</sup> It is true that by 1935 old-age pensions of a kind had been enacted into law in twenty-eight states. This leaves almost half the states without any such provision, and where there are laws the average pension ranges from \$9 in Utah to \$25 in Massachusetts. In 1935 President Roosevelt vigorously supported a national social insurance program. The next decade will determine the actual effect of this legislation on the average worker in the local community.

## PATRONAGE

A great deal has been said in recent years about company welfare work. In reality this is rather illusory. Actually, for all such work—including group insurance, old-age pensions, mutual benefit, death benefit, restaurant subsidies, swimming pools, baseball clubs, and golf courses—514 corporations employing over 3,000,000 workers spent an average of only \$17.04 per worker annually.<sup>14</sup> Moreover, a great deal of this welfare work has been abandoned since the depression.

Some companies have installed pension plans, but few workers can be sure that they will benefit for most plans provide that the worker must have been with the company steadily all his productive life. If he is to secure a pension he must stay in one plant. He must not die before the end of the pension period; he must not incur the displeasure of his employer by joining a union or by going on strike; he must not be discharged. On the

other hand, the company must not fail or must not decide to abandon the plan. The actual fact is that most workers do shift employment at some time and therefore lose pension rights. Moreover, pension rights often rest on the whim of the employers. For instance, the company which manufactures Ralston foods had promised the workers a certain amount of stock for ten, fifteen and twenty-five years of service and although this had been printed in the company literature for years the officials did not hesitate suddenly to modify the agreement in the depression.

#### MAKING EVERYBODY CAPITALISTS

A few years ago stock ownership by the workers was hailed as ushering in a new revolution in America. In actual fact it has, on the whole, deceived the workers by making them less insistent on their just rights, and it has cost them millions of dollars. It is to the credit of the American Federation of Labor that from the first it opposed the scheme.

Review the history of the movement. It began about 1900 and reached its climax around 1929. In the period from 1916 to 1925, 273 companies inaugurated some such plan. So popular did the movement become that in 1928 1,000,000 employees owned or had subscribed for over \$1,000,000,000 worth of securities in the companies where they were working.<sup>15</sup> The ease with which even prominent professors were deceived by such a popular capitalistic device can be seen from the writings of Professor Thomas Nixon Carver of Harvard, who devoted an entire volume to trying to prove that the employee stock-purchase plans amounted to an "economic revolution." He felt that now at last the working class were "becoming capitalists" and would own a "share of whatever profits are made by larger investors."<sup>16</sup> Really, the workers never had a chance to affect control of industry through stock ownership.

As late as 1930 the National Industrial Conference Board, perhaps the best research organization of the employers, stated that "so far as can be judged at this time, employee stock-purchase plans have emerged from this critical period, not only

unimpaired in any important respect, but actually strengthened by the trial, and are now enjoying in fuller measure the confidence of both management and employees." <sup>17</sup> By 1932 the fallacy of this judgment was apparent to all. The market quotations of thirty-five stocks sold to employees by thirty-one leading companies had shrunk to an average of  $14\frac{7}{8}$  by July of that year. "By the end of December this price had risen to  $18\frac{1}{4}$  but was still 80 points below the 1926 median selling-price." <sup>18</sup> No wonder that out of fifty plans for employee stock ownership made by the leading industries of the country and studied by the industrial relations section of Princeton University, thirty-one were given up or suspended by 1933, due to "a large extent to the falling prices of securities sold to employees and the reductions in employees' income." <sup>19</sup>

The fact is that this entire plan is just one further step in the long list of exploitative devices which capitalism has used, not so much with the intention of defrauding the workers as with the idea that it would make them more subservient, and contented with low wages. Capitalism considers low wages as skillful management, not fraud.

It should be borne in mind that the workers were not in a position to hold their investment and in any case were forced to sell when they were being laid off by the thousands during the depression. Many plants were even being closed down entirely. Thus in effect the workers put their money into the purchase of stocks at the top of the market and were forced to sell them out to the privileged classes at bargain prices during the depression. How great were the losses in many cases can be readily understood from the following table. This does not pretend to give the entire picture regarding employee stock ownership, since stock in the various companies was being issued both before and after the dates given. <sup>20</sup> The table on the next page is merely indicative of the general trend.

### THE STEADY JOB

Without question insecurity is the most damaging aspect of the worker's life in America. The most reliable study which has



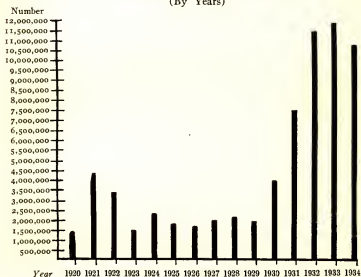
## STOCK OFFERING PRICE TO WORKERS AND LATER QUOTATIONS

Company	Year	Prices			
		Offering	Low, 1932	High, 1934	Low, 1934
American Telephone and Telegraph Company .....	1925	\$121-125			
American Tobacco Company	1930-1932	150	\$ 70¼	\$125¼	\$100½
Armour and Company .....	1925	103	95¼	82¾	65¼
Bethlehem Steel Corp. (Pfd.)	1925	84-94	3½	6¾	3½
Bethlehem Steel Corp. (Pfd.)	1925	100			
Chicago, Rock Island and Pacific Railroad .....	1931	121	16¼	82	54¾
Commonwealth Edison Com- pany (Chicago) .....	1926	71¼-40½	1½	8	1¾
E. I. DuPont De Nemours and Company .....	1924	110	48¾	61½	34½
E. I. DuPont De Nemours and Company .....	1925	92			
Eastman Kodak Company ..	1931	117	80¾	103¾	80
Firestone Tire and Rubber Company .....	1923	10	35¼	116½	79
General Motors Corp. (Pfd.)	1927	100	42*	101*	52½*
International Harvester .....	1925	99	56¼	100	89¼
International Paper Com- pany .....	1930	75	10¾	46¾	23¼
Long-Bell Lumber Corp. ...	1925	90	1¾	24¾	8½
Loose-Wiles Biscuit Com- pany .....	1925	49.8	¼	3	1
National Biscuit Company ..	1926	112-119¼	96	44¾	33¼
New York Central Railroad.	1926	74-102	20¾	40½	25¾
Pennsylvania Railroad .....	1925	110-115	8¾	45¾	18¾
Procter and Gamble Com- pany .....	1926	48½-57½	6½	39¾	20¾
Pullman Company .....	1929	100-45	19¾	44¾	33½
Pure Oil Company .....	1928	94-77¾	10½	59¾	35¼
Standard Oil Company (In- diana) .....	1926	100	40	14¾	6½
Standard Oil Company (New Jersey) .....	1929	61	13¾	32¾	23¼
Standard Oil Company (New York) .....	1925	35	19¾	50¾	39¼
Studebaker Corporation ....	1925	41½-45	5¼	19¾	12½
Swift and Company .....	1925	46	2½	9¼	1¾
	1925	109½- 120¾	6½	20¾	13¾
United States Steel Corp. ....	1927	122	21¼	59¾	29¾
Western Union Telegraph Company .....	1926	120	12¾	66¾	29¾
Yale and Towne Manufac- turing Company .....	1925	65	6½	22½	14

\* Adjusted on basis of stock dividend.

been made seems to show that in manufacturing, transportation, building trades, and mining 10.2 per cent of the workers, on an average, were unemployed from 1897 to 1926.<sup>21</sup> Even now reliable figures regarding unemployment are not available. We have accurate statistics as to the number of hogs raised each year and the amount of wheat grown, but we have not bothered to find

CHART X  
AVERAGE MINIMUM UNEMPLOYMENT  
(By Years)



Sources: "Recent Economic Changes," National Bureau of Economic Research, United States Labor Department and American Federation of Labor.

out how many workers face unemployment. The absence of statistics during the earliest years of the depression resulted in laughable estimates: for instance, the Republicans said only 2,000,000 were unemployed, while the Socialists estimated the number at from 10,000,000 to 15,000,000. In December, 1930, a survey made by the Metropolitan Life Insurance Company among their industrial policy holders in forty-six cities revealed that 23.8 per cent were wholly unemployed, while 21.3 per cent

were partly unemployed. Prominent government officials admitted by the middle of 1933 that at least 13,500,000 were unemployed, but by the winter of 1935 one-sixth of the population was on relief.<sup>22</sup> This condition is not much worse than in other capitalist countries, whether one considers Great Britain, Germany, Italy, France, or Czechoslovakia.

Such data as are available seem to indicate that the lowest-paid workers have the most unemployment. In a survey made in New Haven it was shown that where rentals were less than \$30 a month unemployment due to lack of work was 20 per cent. Where the average rentals were \$60 and over it was only 5½ per cent. In the intermediate districts it was 14½ per cent. The effect of this unemployment is incalculable. The total suffering caused directly by it has probably been greater than the direct suffering caused by the World War in the United States. In 1930, in five industrial cities of Ohio alone, there were 26,928 evictions of families from their homes; in 1931 the number had jumped to 27,670, while on the basis of the first six months of 1932 it was estimated that there would be over 35,000 evictions in that year.<sup>23</sup> By 1935 so desperate had become the condition of the unemployed that men would stay out all night without overcoats in freezing weather to be first in line for a job.<sup>23a</sup>

### HEALTH

The depression not only threw millions out of jobs but it also cut down the wages of those who were employed as can be seen by the following table:<sup>24</sup>

Year	Employment (1926 is 100)	Payrolls (1926 is 100)
1929	97.5	100.5
1930	84.7	81.3
1931	72.2	61.5
1932	60.4	42.6

Even if one takes into account the fact that prices had also fallen during the depression, the workers who were employed in 1932 could purchase little more than one-half of what they could

in 1929 with their wages.<sup>25</sup> The condition of those who were completely unemployed was tragic in the extreme.

Newton D. Baker, chairman of the Welfare and Relief Mobilization in 1932, reported the effect on health as follows:

Low vitality, susceptibility to disease, longer convalescence, and delayed care of physical disabilities among children are conditions directly traceable to the present economic situation. . . . Statistics, however, do not show the havoc being wrought by a lack of food, clothing, fuel, medical care, and recreation. We shall undoubtedly reap a harvest of tuberculosis and other diseases in the next ten years from what the children today are suffering.

Dr. Dublin of the Metropolitan Life Insurance Company made a study of industrial policy holders, chiefly wage earners, and found they had a mortality rate of from 57 to 124 per cent greater than that of the ordinary group of policy holders.<sup>26</sup>

The effect of unemployment is also shown in the report to the Philadelphia Housing Association for May, 1933, which shows that in that city alone more than 28,000 families had to double up with friends or relatives. The Milbank Memorial Fund and the United States Public Health Service made a study in 1933 of 11,000 individuals in three industrial cities (Birmingham, Detroit, and Pittsburgh), which showed that the rate of disabling illness in families of the unemployed was 39 per cent higher than in families of full-time wage earners and 25 per cent higher than in families of part-time workers. A study by the Milbank Memorial Fund of 514 school children in the Bellevue district in New York shows that four out of ten of the poorest children were suffering from serious undernourishment and that a quarter of the children in workers' families having a higher income were rated as poor or very poor in nutrition.

#### HELP

Relief has been given to unemployed workers in greater measure than in any other depression which the United States has experienced; still it is very inadequate. Passing over the loss of self-respect which goes with having one's private affairs investi-

gated and then becoming an object of charity, the hardships of the unemployed worker are unbelievably severe. Consider the relief policy in Cuyahoga County, Ohio, in which Cleveland is located. In June, 1934, a 22 per cent cut was announced in the amount of relief, though later this was rescinded and only a 12 per cent cut made. This left a family of five with the following weekly allowance: food—\$6.30 (reduced from \$7); clothing—\$0.68 (reduced from \$0.87); rent—from one-twelfth to one-twenty-fourth of the yearly tax bill is deducted and from \$3 to \$5.50 a month in cash is paid. The policy regarding rent is not sufficient, so most landlords start eviction proceedings as soon as they learn that a family is on relief. If an evicted family can find new quarters a month's rent is paid. In order to secure new lodgings a family usually has to misrepresent its status, and when the new landlord finds that the family is on relief he in turn begins eviction proceedings. The result is that many unemployed families are evicted as many as five or six times a year.<sup>27</sup>

Gas bills are paid only if a company threatens to shut off the gas, and then only if it is cheaper than paying for oil. Electric bills are not paid unless there is illness, so that electricity is almost always shut off.

Families on federal relief work are slightly better off, but even then only one-quarter of their rent is paid, plus a deduction in the yearly tax bill, so that there is constant danger of eviction.

This is representative of what America is doing for its unemployed in the years 1934 and 1935. The best that can be said for it is that capitalism is preventing the starvation of the families of the unemployed. How high the human cost to the workers is under this policy can be appreciated by the facts regarding the increase in illness which we have already noted. In one case a pregnant mother, evicted on the sidewalks of New York, went insane as a result of the worry and strain. Just how frequent an occurrence this is the statistics do not reveal, but there has been a large increase in mental difficulties due to the depression.

## CREDIT

In view of the low status of American labor it is small wonder that a large number of workers who are employed have to borrow money from companies charging from 38 to 42 per cent annually. In Waterbury, Connecticut, for instance, applications were made in 1933 by 7,055 families or 31.7 per cent of those gainfully employed.<sup>28</sup> Were it not for capitalism and the profit motive, some method might be devised of making loans at a lower rate of interest to all self-respecting workers, even those who are not members of a credit union. In some states even the credit union is prohibited because of vested interest.

It is not to be wondered at that fear is now the dominant motive of the worker—fear of the loss of a job, fear of a reduction in wages, and fear of eventual destitution.

## EXPERIENCE

It must also be remembered that in the period from 1854 to 1931 there had been, as the Cleveland Trust Company says, "thirteen well-defined periods of serious depression."<sup>29</sup> It is a curious aberration of the human mind that business men seem to gain great satisfaction today in thinking of past depressions. Even *Nation's Business* ran a whole series devoted to the terrible calamities which had afflicted the country in the past. This is, of course, merely one more indictment in the count against capitalism, which has caused these recurrent periods of insecurity or panic—or at least has been unable to prevent them.

## CHIVALRY

One very significant aspect of the life of the worker under capitalism has been the steady increase of women wage earners. In 1870 only 13 per cent of those gainfully employed were women; by 1930 this had jumped to 22 per cent. In the latter year, 10,750,000 girls and women were gainfully employed, of whom only 263,000 were business women in managerial positions. Out of every nine workers two were women. Apparently this would indicate, in the case of those who are married, that the wages of husbands and fathers are not sufficient for the family needs.

This trend exists not only in the United States, for in France 40 per cent of those gainfully employed are women and in Great Britain one-third. Nearly one-third of all those employed are in domestic and personal service, that is, hotels, restaurants, beauty parlors, cooks, chambermaids, etc. The bulk of the rest are in clerical, manufacturing, professional, trade, agricultural, transportation, and communication occupations. The clothing factories employ the most women, over 353,000. They are employed, however, at making almost everything from shot and shell to automobiles. When visiting the Briggs Manufacturing Company in Detroit the writer saw women working punch presses and in other automobile plants he saw them performing a wide variety of tasks. Yet in general the capitalistic system allows them less money than the men receive. In about one-fourth of the codes adopted up to 1934 there was a lower rate for women than for men.<sup>30</sup> On the average women wage earners receive about 41 per cent less than the men.<sup>31</sup>

About 750,000 of the employed are girls between the ages of ten and seventeen. There are also 260,000 women over sixty-five at work scrubbing office-building floors and doing other types of manual labor. Actually 40,000 of these are over seventy-five years old. Over 3,000,000, or 28.9 per cent, are married. The United States Women's Bureau, from its study, recognizes that these women are for the most part employed because of necessity.<sup>32</sup>

It must not be forgotten that married women who are gainfully employed have, in addition to their industrial tasks, house cleaning, cooking, laundry work, marketing, and the care of children—not to mention a husband. If they are working in southern mills they may have in their homes no plumbing or water supply. Society has, except when prohibited by N.R.A. codes, usually permitted home work. In 1931 over 10,000 in Pennsylvania alone were working in their homes, largely at miserable pittance. Investigations in that state reveal that in Philadelphia a woman working at top speed at home, with help from the members of her family, can earn about \$0.12 an hour. The average weekly wages range from \$2.97 on women's clothing to \$4.16 on men's garments.

In spite of the codes under the N.R.A. wages are still low. Minimum wages under the retail code are only \$10 a week in the small towns and \$14 in the larger cities. In the south all rates are \$1 a week less, although scientific studies indicate that the cost of living there is not that much cheaper than in the north. Thus far there has been no protection under the N.R.A. for the hundreds of thousands of girls who are employed in domestic service; in fact, the *New York Times* reported: "Depression Ends Servant Problem. Untrained maids can be hired for as low as \$4 a month."<sup>33</sup> In 1933 in New York the state labor department reported that fifteen- and sixteen-year-old girls in domestic service were often "made to work with no let-up whatever from 6:30 A.M. till 10 or 11 at night or even later. In many cases no wage whatever is paid, girls being expected to work for merely a good home."<sup>34</sup>

While there is little doubt that the N.R.A. has had the effect of shortening the hours of women who are protected by codes, there is widespread violation of the codes everywhere. Most women who work are not in a position to prevent such violation.

In contrast to a wage of \$12 as provided by the codes in the south and \$13 in the north in the textile industry, it is interesting to note that a New York City judge in 1933 provided \$3,000 a month for Lucy Cotton Thomas, a seven-year-old girl, daughter of a banker who died leaving her his property. The itemized budget as submitted by the family included \$600 a month for food; \$300 for clothing; \$700 for furnishings, repairs, and incidental expenses of maintaining the apartment; and \$400 for miscellaneous expenses, including French, music, and dancing lessons, and flowers. This is the kind of item which a poor factory girl may read in the daily press and which undoubtedly makes her condition seem less satisfactory. An even more potent means for creating dissatisfaction is the luxury and waste of wealthy millionaire homes which are portrayed in the American moving pictures, which have been already discussed.

The condition of women workers in the United States is not one on the whole of which capitalism should be particularly proud.



## HOME

Considering their low wages and intermittent work, it is obvious that the mass of the underprivileged workers must live in defective and congested housing. In the steel industry the workers not long ago were required to labor twelve hours a day and seven days a week. Naturally they tried to rent tenements close to the mills. Following the war, in 1920, in one block twenty-eight small houses held 256 persons, including 116 children. Four rooms of one house had thirty-four occupants, and in another four rooms a man, his wife, his two children, and twelve boarders lived.<sup>35</sup> In 1932, because of poverty due to unemployment, people were living in even worse conditions. In Pittsburgh ten families were living in a house of thirteen rooms. A single cellar room was housing a family of eight. Families even had to be broken up, the children being distributed, because of the lack of labor.<sup>36</sup>

Always the unemployed or partly unemployed are forced into the worst slums. A study made in 1931 in Baltimore by a graduate of Yale found that in the slum area 38 per cent of the workers were unemployed and 14 per cent were receiving charity. The average weekly income per person was \$4.24. On the other hand, in the better locality of Baltimore Street in the residential section the average weekly income per family was \$41, the percentage of unemployed was only 6 per cent, and 98 per cent owned their own homes. Whereas in the slum area 44 per cent were 18 years or under, in the residential section only 11 per cent were under 18 years, and of course no one was receiving charitable aid.<sup>37</sup> A study made by the Slum Clearance Committee of New York in 1933 to 1934 showed that slum areas of the city were the home of the worst accidents, diseases, juvenile delinquency, and infant deaths.

## CULTURE

The cultural opportunities of the workers in the United States are, as we have already shown, grossly defective. Recreation for the most part is carried on to make profits for capitalistic enterprise. In the matter of public education the schools in the indus-

trial areas are heavily crowded, one teacher often having to care for forty-eight or more children. There can be no proper segregation of the brighter children. The religious needs of the worker are inadequately met for he has no funds to support a pastor who could minister to his needs alone. The churches with the most able leaders usually do not choose slum areas. Even when a minister does forego a stronger pulpit to serve the workers he must get outside help or exist on a starvation wage, which few are willing to do.

#### DEMOCRACY

In the matter of politics it is difficult for the worker to vote as he likes. Industrial executives may pass out the word that if a certain candidate is elected the factory will close. This means that the worker's livelihood will be taken away. Is it any wonder that the worker will be influenced? Even in a depression period, when because he is unemployed he has nothing to lose by voting for the "best candidate," it is difficult for him to know which candidate is really his friend. Most of the agencies of communication are in the hands of capitalistic interests. How can the worker be sure who is really supporting him?

This brings us to the psychological attitude pattern of the worker. Having been born and reared in a money culture and a capitalistic economy, he has been taught to respect and admire the virtues of capitalism. If the worker is employed he has been taught to hope that he himself may some time become a capitalist. If he is unemployed he senses that something is wrong with society but he does not know where to assign the responsibility. Consequently he may become the victim of demagoguery of all sorts or may continue to exist in a state of passive acquiescence, or he may revolt against the "ins" and elect a rival political party which may be just as friendly to special privilege.

#### LEADERSHIP

It is small wonder that in a capitalistic society the majority of the leaders of the American Federation of Labor are believers in the capitalistic system. Nor is it strange that the salaries of

union officials should be high. To cite an extreme instance, the president of Local 306 of the Motion Picture Operators, Sam Kaplan, who spent one or two days a week in a union office, received \$21,800 a year. Over a five-year period Kaplan was voted by the union gifts amounting to \$55,000.<sup>38</sup> Matthew Woll, president of the International Photo-Engravers' Union, also organized the Union Labor Life Insurance Company, from which he receives an additional salary as president. This is in accord with the highest capitalistic standards but is it in accord with the highest labor standards? At the annual convention of the Federation of Labor Woll placed in the hands of all the delegates a booklet entitled "A Profitable Career." This, as the foreword says, was issued for all who are interested "in carving out for themselves a profitable and enviable career."<sup>39</sup> Is it proper for an outstanding labor leader to try to encourage other union officials to secure profitable salaries outside the union movement? While Matthew Woll is hardly typical of the average labor leader, probably few delegates sensed anything inappropriate in the booklet since it conformed to the standards of capitalism.

Labor leaders as a whole are genuinely trying to serve the interests of the workers but they tend to be interested largely in increasing the wages of workers and in ameliorative effort, rather than in effecting fundamental changes in the economic order. Thus a capitalistic attitude often becomes part and parcel of the mental pattern of responsible labor leaders. To be sure, when millions are unemployed and the rank and file tend to become more radical the labor leaders themselves reflect the changing psychology of the mass of the workers to some degree.

#### AMBITION

Workers born and reared in a capitalistic environment naturally want to become capitalists. Thus it is that some among them mortgage their futures to buy antiquated machinery and weave or spin at home. In Paterson, New Jersey, there are numbers of workers who have done this. They are a fungoid form of capitalism which feeds parasitically on the decaying and aban-

doned mills. Incidentally, they make it harder for the larger factories to pay higher wages.

#### COMPARISON

It is apparent that the treatment of the employer in a capitalistic society is significantly different from that of the common wage worker, although both may become infected with the capitalistic virus.

The capitalist employer has usually tried to keep the wages of labor as low and the hours of labor as long as he possibly could. This has caused the rise of skilled trade-union groups, who have tried to protect themselves through organization. Humorously enough, it may be only because of trade unionism that capitalism has been kept from suicide. For if capitalism had had its unrestrained, autocratic way, it would have reduced labor so near to the starvation point that consumer purchasing power would have been little or nothing and capitalism would probably have died some time ago. The labor unions thus tend to perpetuate the capitalistic system, although the latter has consciously or unconsciously penalized labor in a wide variety of ways.

In effect, this results, as has been intimated, in a double standard of morality. Employers are permitted to organize as a matter of course, yet if the worker exercises the same right he is in danger of discharge. The employer can use a spy organization to watch the worker; the worker cannot retaliate by using the same weapon on the employer. It is proper and right for the employer to curtail or stop production; it is illegitimate for the worker to practice *cacanny* or soldiering. It is perfectly legitimate for the employer to destroy his product but sabotage on the part of the worker is unethical. If the worker demands the high wages of \$1.50 an hour the public seems to think it questionable; on the other hand, the employer can make all the profit or take all the salary he can get and it is considered good business. From 1922 to 1929 the index of real wages advanced by 2.1 per cent a year, "while common stockholders gained in real income at a rate of 16.4 per cent a year."<sup>40</sup>

Employers now have the right to organize into associations

with impunity. Unless they want to borrow funds from the federal government they can boost their salaries as much as they think profits will permit. As we have already shown, the revelations before the United States Senate committee have revealed that any number of our great corporation executives have had their salaries increased from 1929 to 1932. C. M. Schwab, chairman of the Bethlehem Steel Company, had a salary of \$150,000 in 1929 but by 1932 it had been increased to \$250,000. The president of the International Business Machines Company received in 1929 \$258,106 in salary and \$60,000 in bonus; in 1932 he received \$394,015 in salary and \$60,000 in bonus.

The ordinary discrimination against the worker in America is so great that even when the federal government tries to throw its protection around the worker it may avail little. Take as an example what happened in a relatively obscure plant, that of the Whitney Blake Company in New Haven, Connecticut, which was working on government orders and was thus particularly susceptible to government control. When the workers tried to organize under the N.R.A. they were discharged; the employer, when questioned about the matter, stated that although of course he would not discharge a man for joining the union there was nothing in the law which prevented him from firing an individual because he "did not like the color of his eyes." The case was appealed to the National Labor Board, which ordered him to take back the strikers. The employer then took some of them back, but in spite of all the government could do with repeated trials, inspections, and orders he severely penalized these men. The discrimination was so great that from December 23, 1933, to September 29, 1934, the nonstrikers were given a constantly increasing percentage of work hours which finally reached over 80 per cent, while the strikers were given a decreasing amount which finally reached little more than 10 per cent. This was in spite of the fact that the federal government placed its authority behind the strikers.

At one time it was considered perfectly ethical for men to drink, to smoke, and even in some circles to have immoral relations with the opposite sex; it was regarded as unethical for re-

spectable women to do any of these things. Most thinking people have long since recognized—although for years many men denied it—that America has a double standard of morality as between the sexes. We have not yet recognized the double standard of morality in industry—one standard for the employer, another for the worker. In order to make this perfectly clear to the reader the writer has summarized some of its more important aspects in shorthand phrases. It would be perfectly possible to expand these items. The workers throughout the world will not permanently submit to this double standard of morality.

### THE DOUBLE STANDARD OF MORALITY IN INDUSTRY

#### *The Employer*

1. Usually given vacations with pay.
2. Paid during ordinary illness.
3. In depression salary tardily reduced and usually slightly.
4. Has some right to job and usually receives long advance notice before discharge.
5. Legitimate to employ a spy organization to watch the worker.
6. Legitimate to curtail or stop production.
7. Sabotage or destruction of product justifiable.
8. All profits possible legally to extract from the public justifiable.

#### *The Worker*

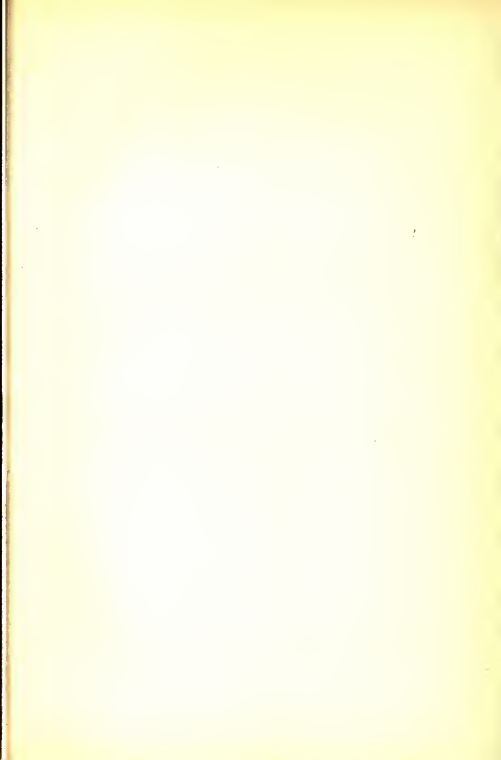
1. Usually given vacations without pay.
2. Not paid during ordinary illness.
3. In depression wages reduced quickly and usually drastically.
4. Has no right to his job and usually has little or no advance notice of lay-off.
5. Considered illegitimate to use a spy organization to watch the employer.
6. Illegitimate to reduce production or to practice cannery or "soldiering."
7. Sabotage or the destruction of product unethical.
8. Demand for high wages considered unethical and "communistic."

*The Employer*

9. To organize with other employers justifiable.
10. Perfectly proper to be represented by highly paid outside counsel from any part of the nation.
11. Monopolistic control of natural resources or products considered shrewd business skill.

*The Worker*

9. To organize with other workers bitterly opposed by many employers and a frequent cause of discharge.
10. Questionable to employ outside organizers, commonly called "outside agitators."
11. Monopolistic control of "closed shop" or permitting only union men to work considered questionable.





*PART FOUR*

## CHAPTER XXIV

### WILL CAPITALISM SURVIVE?

It is the unanimous verdict of all students of economics that there are serious evils existing under capitalism. No sane man questions this conclusion. It is also clear that our economic order is now in process of evolution or revolution. Indeed, if there is any one fact that science has demonstrated beyond dispute it is this fact of change. All societies and all economic organizations are changing and the system of today cannot be the system of tomorrow.

The transformations of the past 150 years are almost beyond the imaginative capacity of the human mind. We came into a barren wilderness; it is now a teeming "civilized" state. The changes of the next century and a half will make those of the past fade into insignificance by comparison. Nothing that has been said in these pages should imply that there are not great values in contemporary society. We have made astonishing advances in the past few centuries, but man at his best conceives "a growing and a becoming" as the invariable of successful living.

Society never stands still. At some periods it changes more swiftly than at others. Apparently, at present, we are at the end of an epoch. There are few thinkers who believe that capitalism is the permanent and only solution of our economic order, that mankind will forever be subjected to a capitalistic era. Most students believe that it must some time give place to a new and better system. No one today can be sure as to the time of the demise of capitalism; it may come suddenly and quickly, or it may linger on for years.

Turn back to Chapter II and consider once more the defenses of capitalism one by one: its wide vogue, its productive capacity,

its freedom for the individual entrepreneur, the survival of the fittest, consumer control through purchases, its elasticity, its benevolence, the benefits it gives to the workers, the possibility for its improvement, and any other arguments the reader cares to advance. In the light of the detailed evidence these all seem to be mere hortatory injunctions for optimism in behalf of an existent *status quo*. Even after all possible allowance has been made for these claims, capitalism is a survival of an outmoded stage in the evolution of mankind. Today it is rapidly becoming an anachronism.

The evils of any system may be considered one by one but that does not necessarily afford a true picture of basic underlying defect. The separate and isolated parts of a picture puzzle can be examined with great care and in detail but the total picture may remain a mystery until the parts are fitted together into one interrelated whole. In much the same way it is necessary to piece together each of the flaws of modern society into the general pattern of the whole before we can understand the inherent weaknesses of the social and economic order. Any reader who has thoughtfully traversed this volume will recognize that capitalism is a dynamic changing institution with positive and negative aspects which are constantly in flux. Can these evils be eliminated by minor individual reforms or must the system itself be changed? If one fits together the various complex influences of capitalism on culture, as we have tried to do in this volume, a clear pattern of fundamental structural defect stands revealed. It is the capitalistic system itself. For whether one examines its rise or its various processes and products there are seams of weakness which are inherent in the system as a whole. It is true that any one of the evils sketched may be modified or eliminated. Considering the social order in its entirety, however, we have tried to show that the evils cannot be eliminated as long as the profit-making exploitative heart of the system continues. It is easy to kill mosquitoes one by one, but for each one killed there are a thousand to take its place as long as the swamp, their breeding ground, remains. It is the same with the evils of capitalism.

For those who have generously followed this volume to its conclusion there can be little question but that the conditions which brought on the rise of capitalism have been radically transformed in all the leading countries of the world. In effect, a revolution in the economic life has occurred. In the early days of the United States capitalism was not unfitted to the needs of the country. It encouraged shrewd pioneers to develop the natural resources with great profit to themselves and with some profit to the nation even if the costs were heavy. Liberty, equality, and fraternity were not entirely negated by the capitalistic system.

We have shown that the advances made by mankind in technical knowledge have ended the era of scarcity and that we are now living in a period of want and poverty in the midst of an era of plenty. Among the factors which have made this possible are a geometrical increase of inventions, an enormous development in potential power per man unit, technological unemployment, and an agricultural and industrial machine which can turn out quantities of products which the consumers cannot buy because of a lack of purchasing power. Along with these changes have gone the exhaustion of frontier land, increasing concentration of the ownership of wealth, special privilege, a growing nationalism, and a decline in foreign trade with increasing international frictions of all sorts. In spite of all these developments, which collectively amount to a radical revolution in our social and economic life, vested habits of thought and outworn modes of behavior persist and mankind still clings to the economic mechanism which was born in a crude pioneer age of scarcity. While America still talks about individual initiative and individualism this liberty is in fact being more and more restricted. In reality it has come to mean liberty for big combinations of wealthy interests to gouge the common people. The major natural resources fell into the hands of this small group. The processes of both production and distribution similarly came to be owned by those who exploited them relentlessly and unscrupulously for private profit. Because finance and monopoly capital could realize larger and quicker profits by selling huge quantities of doubtful securities to the people, debt piled up

faster than production. Whenever a dominant capitalistic country secured economic or political control of some backward nation the bankers capitalized the situation by floating loans far beyond the ability of the natives of that country to pay. This was profitable to the bankers for they collected huge profits from the flotations, and it was profitable to capitalistic producers as the money was partly spent on purchasing new goods from which monopoly capital reaped huge profits. If possible, payment on these bonds was forced by military power, as in India. When this was inconvenient or impossible and repudiation followed, the banks had of course sold the bonds to the people. Capitalistic interests were finally themselves caught in the cumulative effects of their own contradictions. Every bit of exploitation by public-utility interests and others, every chiseling of dollars from consumers' pockets, ultimately meant that there was just that much less purchasing power. So in the end a violent crisis of capitalism arose which swept across the world like wildfire. In America almost every bank in the country was for a time closed.

Naturally, a capitalistic culture affects every phase of the life of a country, from recreation to religion and the political state. Capitalism is just as pervasive an element as is salt in the Atlantic Ocean. People had not realized this fact, but a careful analysis proved it true. Capitalism has thus had its effect on all classes of the people. The ruling moneyed class is corroded perhaps even more than are the exploited groups of workers and farmers. The wealthy attempt to justify ethically an unethical system. The fact is that all the way through our society, whether we consider the law, recreation, or government, there is in effect a double standard of morality, one for the rich and another for the poor. Even education and science are refracted by the unconscious influence of capitalism. The "Encyclopedia Britannica" is reputed to be as impartial and scientific as any standard encyclopedia put out under the influence of western culture. The character of its impartiality in treating the profit system is indicated by the fact that the article on capitalism is written by

the editor-in-chief of the encyclopedia and is devoted to a polemic in defense of its merits.<sup>1</sup>

In America the cumulative effect of all the contradictions of the past few decades resulted in a crisis so severe that the wealthy classes were in a state of panic and were willing to make almost any changes demanded by the president, Franklin D. Roosevelt. Big business openly dropped the pretense that it was competitive; "rugged individualism," which had been a shibboleth for over a hundred years, was loudly consigned to the scrap heap. The president tried to reduce the exploitation of the workers and farmers and to curb the great corporations by introducing collective restraints in regard to such matters as wages, hours, and collective bargaining. Industry accepted this program because it was thus freed from the restrictions of the antitrust laws and could plan for greater profits. While monopolistic industry thus frankly grasped the advantages of collective action for profits with one hand, it began to violate any irksome restrictions with the other. The provisions regarding the rights of workers to collective bargaining were often reduced to a dead letter, although they did provoke a wave of strikes throughout the country. The longshoremen of San Francisco, for instance, took literally the provisions of the law that they could organize with representatives of their own choosing but the employers refused to concede the right. The resources of state and city were used against them. In the meantime subservient politicians clear across the nation used the incident to restrict labor: for example, the mayor of Pittsburgh urged all city employees to withdraw from the trade unions.<sup>2</sup>

The political power of the farmers was great enough and the loss of their purchasing power was so serious that big business acquiesced in giving the right to limit competition in the marketing of crops and livestock. Eventually this meant that the farmers, workers, and the powerful business interests generally were all increasing costs and profits and consequently prices. No effective agency was established to protect the consumer. The government spent billions of dollars worth of money on relief and on public works with the inevitable result that business

picked up. It is quite possible that the pressure from the profit agencies may eventually force the country into inflation, for any reduction in government expenditures will immediately be felt in the business world. Success at the polls is largely dependent on keeping the country prosperous. Since inflation will temporarily cause prosperity it would seem a sure method of retaining control politically. Inflation, if indulged in, must cause an increase in taxes, and business has always in the past resisted heavy taxation. Hence inflation, like brandy, is a stimulus—but it also causes a later reaction. Eventually inflation usually leads to crisis, but it may be an immediate way of saving *active* business men by sacrificing *retired* business men.

In this volume we have tried to sketch some of the more important conditions which exist under capitalism. It should be emphasized again that there has been no effort to prove conclusively that all the conditions enumerated are due solely to capitalism. It is contended, however, that some of them are the products of the capitalistic system and can hardly be eliminated so long as this profit-motivated economy remains. It is well to refresh our minds with the exact definition of this modern economy under which we live. It is the *economic system under which production, distribution, and finance are becoming concentrated into large-scale interrelated units, which are on the whole corporately owned and controlled by a minority who run them for private profit.*

All students of this "order," except the reactionaries and die-hards, are agreed that changes must now be made. The only question is, in what direction? It is not the purpose of this book to lay down a concrete blueprint of the society of the future. Within the limits of this volume such a program could not be adequately developed. Here we have attempted to analyze and portray some of the conditions which are present today. Unless these are understood no serious plan for reconstruction can be undertaken. Diagnosis must precede prognosis. The endeavor of this volume has been to examine a social and economic pathological condition, not to prescribe treatment for it. The cumulative evidence here presented should make the reader recognize that

the capitalistic system cannot continue indefinitely. Even the President's Research Committee on Social Trends implied this, although in guarded language, when it said that there can be no assurance that "violent revolution can be averted."

All over the world there has been a trend towards public ownership of the basic natural resources. In 1882 only a single city in all Great Britain owned its street-car system, but by 1913 there were 171 cities that ran their car lines. The post office is, of course, universally government operated, and so are telephone and telegraph lines by virtually all the important countries of the world. Only in Great Britain and the United States and a few minor countries are the railroads privately owned. Governmental agencies are every year furnishing the people with more and more light, heat, power, and water. There was a time when street-cleaning, refuse-removal, sanitary, and health services were private enterprises; today they are run by the community. In the United States education has largely passed into public hands; recreation, banking, and insurance are becoming more and more socialized. This trend will probably continue.

The Communists would solve our problems by complete public ownership and social control of the basic means of production and distribution, and they believe that this plan is possible of attainment only through a violent revolution. The Socialists would achieve the same goal, but by a gradual, peaceful evolution. The Roosevelt administration would make experimental changes in the direction of a controlled capitalism. No one can be sure what the next stage of economic development will bring forth, but the evidence which we have presented suggests that capitalism is approaching old age, senility, and collapse.

To say that no one should criticize the capitalistic system without portraying the exact economic instrument which is to take its place is as stupid as are many of the other rationalizations of the *status quo*. Recognition that a given system is antiquated and outmoded usually precedes the invention of the new. Indeed, even after it is recognized that a given device is defective no one can portray the exact lines which the new and more successful instrument will have. Sixty years ago there were those who



pointed out that the horse cart was inadequate and defective. In general, they felt that some form of power-propelled vehicle was the next step, but they could scarcely have anticipated the automobile of today. Similarly, it is reasonably clear that capitalism has outlived its usefulness and that some more collective form of economic order must take its place, but the exact lines of the new order can scarcely be drawn with accuracy. It is also possible that capitalism may linger on in some modified form for fifty years or more.

The experience of the past would seem to indicate that the future holds promise of an extension of power to the working class. For one who believes in the welfare of mankind this is a goal supremely to be desired, because the workers, both of hand and of brain, embrace some 90 per cent of the population.

As to the technique of transformation—granted that capitalism must sometime, in the forward march of the centuries, be displaced—students of economics and sociology are not agreed. The technique of change may be peaceful. It could be a growth so complete and yet so imperceptible that no one could be sure just when the capitalistic era ended and the new era began. It is the opinion of the writer that if the "new capitalism" predicted by some should really come, when the capitalists would continually keep placing all their wealth in the hands of the consumer, thus creating a permanent consumers' purchasing power, this system would inevitably necessitate a form of collective control in which capitalism would be ended.

It is possible that capitalism might be ended by the collapse of the entire system of debts and the credit structure. If this type of change should occur it would be like a great skyscraper to which year after year new stories were added until it became so topheavy that it crashed. It is not impossible that from the collapse of the credit structure a new system might arise.

Again, it is possible that the capitalistic system might change as a concomitant product of some catastrophic world war. To the writer it seems probable that if our leaders permit the country to become embroiled in a world conflict of serious proportions this may result. At the moment things do not look too hopeful

to avoid the world catastrophe. The United States and foreign nations are spending more on military preparations than ever before in the history of the world. International frictions are not allayed. The contradictions of imperialism are more impossible to harmonize. Colonial empires grow ever more restive. The handwriting on the wall is all against mankind's being sufficiently intelligent to avoid future world war. Scientific studies which have been made of war frequency show that it is increasing rather than diminishing. It is conceivable that a change might come about by civil war and revolution, without world war. This, of course, is possible, but under the present control of the sources of communication it seems doubtful to the writer whether the masses of the people would be sufficiently well organized and equipped with military weapons and psychological independence to stage a successful revolt, except following a world conflict or other serious crisis. Scientific indications seem to point out that humanity is still too stupid to change maladjustments and international frictions without world conflict.

In the next decade there appear to be three possibilities, whether or not war comes in to change the picture. The first is to reform capitalism. This the Roosevelt administration is now heroically trying to achieve. There can be no question that the bulk of the American people are sincerely anxious for the success of this program. They are used to capitalism and to a money culture, and they hope that it can be salvaged.

The second possibility is some form of capitalistic fascism. In the United States this would not, of course, be known as fascism; it would more likely be masked under one of the major parties or be ushered in by some such slogan as "back to the Constitution," "100 per cent patriotism," "away with national regimentation and bureaucracy." It might even be labeled the "American Liberty Party" or some such high-sounding title. If the Roosevelt régime should fail in its attempts to bring about a reasonable reform of capitalism, some form of dictatorship—involving suppression of the rights of freedom of speech and of the press more extreme than anything we have yet seen—may be the next stage. If so, it will be but the interlude before revolu-

tion, for the entire history of the human race has shown that dictatorships of single individuals do not permanently endure.

The third alternative is a new system displacing capitalism. If this third possibility should eventuate, what would the system be? No one can be certain. In another volume (*"Contemporary Social Movements"*) the writer has sketched the trends throughout the world of various social systems which are alternatives to capitalism. To duplicate the factual material there presented is unnecessary. Communism in the Soviet Union, with all its shortcomings, appears to be the most daring alternative to capitalism which mankind has yet established. In other lands the indications are that if a new system should come it would involve some form of increased collectivization which would still permit a measure of individual initiative, provided always that it was used to the maximum in the service of the common good.

We have tried to show that there is an inherent and fundamental contradiction between Christianity and capitalism. The ethics of service and sacrifice for the common good cannot be harmonized with exploitation of the people, large profits for the few, and special privilege. The world must choose between an ethical religion and a selfish capitalism, for it is impossible to have both—just as it was impossible in the long run to have a vital religious faith and continue the institution of slavery. This is the coming issue in the religious world, and from now on capitalism will be increasingly challenged by religious bodies. It should also be recognized that it is impossible to have a reformed capitalism, no matter how drastically reshaped, which is not selfish. Inherent in the very structure of capitalism is the selfish quest for profits, and as long as this motivation remains—reorganize, amend, control—the system still remains selfish. Do away with the profit motive and capitalism no longer remains. No matter how one disguises a wolf he still remains a wolf with very definite predatory instincts. It is thus no longer a question between a rampant predatory capitalism and a purged benevolent order, but between capitalism and a new economy.

It is quite clear that under capitalism we also cannot have a planned economic order. Even George Soule, the author of *"A*

Planned Society," now recognizes this to be true.<sup>3</sup> Business interests intent on profit making will never permit national planning in the interests of the consumer.

The writer of this volume believes that we are at the end of an era. The old unplanned productive mechanism must be abandoned. No longer can we permit unlimited production, unlimited profits, unlimited debts, unhampered fixing of hours and wages. Yet, if we are to plan rationally, who is the most competent to do the planning and for whose benefit? Obviously we desire the rule of the wisest and best in the interests of all. Who are the wisest and best? Is it not apparent that the wisest and best must be those who are impartial, or at least those who genuinely represent the overwhelming majority—that is, the workers of hand and brain—and who can yet avail themselves of the technique of science? As long as the profit motive dominates industry how can we conceive of the industrial entrepreneur as being impartial? If he himself profits from industrial enterprise how can he decide on the planning? If the man who is engaged in the quest for profits is to decide and plan industrial life will it not be just about as scientific and impartial as the tariff has been?

The problems of planning are very real in any case and probably impossible of solution if the attempt is made merely to reform capitalism. If large groups of people have the power to fix prices, then the profit motive no longer operates in the competitive process as before and it is doubtful if capitalism will survive. If it does, it will probably itself control the price-fixing process. To the extent that profits are extracted from the mass of the people through fixed prices, to that extent the masses will lack purchasing power. Hence, in the long run, sales will decrease. Yet, if sales decrease, eventually corporations themselves will not earn profits, in which case they will have difficulty in meeting interest on debts. If our society permits a continuation of the expansion of debts faster than production the time will come when we shall have to decide either to allow the corporations not to repay the people's money or to take over the corporations and nationalize them. Any changes in the immediate present are palliative as long as they leave ownership and income

in the hands of a small group of propertied leaders. The only kind of changes which will really fundamentally change our social order are those which effectively increase purchasing power in the hands of the masses of the people. If profits occur they must go to an ever larger number, preferably to all. To do this the profit motive must be drastically curbed or transmuted and ethical values and motives must take its place. Fundamentally, all business activities should be carried on for the benefit of the mass of the workers and the consumers. This is most unlikely to happen where ownership is in the hands of a small minority whose chief interest is profits. American society must, indeed, sooner or later become part of a world socialized state; it must be built on a genuine basis of liberty, equality, and fraternity in the economic world, not merely in the realm of ideology. We must reduce maladjustments to the lowest possible minimum. The welfare and development of children everywhere must supersede property rights, so that each oncoming generation can be given the greatest possible opportunity for growth and achievement. This inevitably means that the abundant life must be available for all groups in society, even the most downward; otherwise some part of the next generation is penalized. This in turn will demand a planned economic life—planned for the welfare of all and not planned primarily for profits.

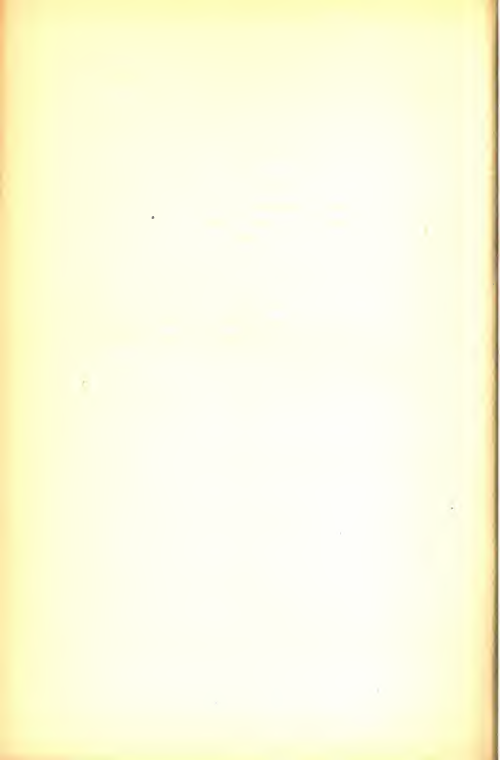
The old world of yesterday is dying. It was a world in which the main emphasis was on high salaries, private property, profit, and privilege. Capitalism ruled in the seats of the mighty and an age of scarcity was capitalized for more than it could yield. In the new world we must be ready to accept low salaries or no salaries, perhaps mere subsistence. We must run risks and accept penalties. Does not the trend of societal evolution point towards the displacement of capitalism by some form of collective economy which will make effective to all the people the age of abundance which science has made possible?

There is, of course, no certain guarantee when capitalism will be overthrown. If the people wish to remain subservient serfs in a profit economy they can do so. But of one thing we can be

certain, the price of liberty is eternal struggle. If democracy is to endure, capitalism as we know it must go.

A revolutionary transition era may necessitate a measure of dictatorship, but the country should always be controlled primarily for the benefit of the workers both of hand and brain. No society is genuinely democratic unless all its parts are democratic, economic institutions as well as political, social, and educational. Mere slogans about Lincolnian and Jeffersonian democracy do not make a country free. A country can have a genuine social democracy only when financial oligarchy, special privilege, and exploitation are left behind in the age-long struggle for human freedom.

In one of Bernard Shaw's plays,<sup>4</sup> at the end of the first act a player declares, "The play is now practically over, but the characters will continue to discuss it for two more acts." Similarly, it should be clear to every impartial student of our economic order that the era of capitalism is almost over, even if some decades elapse before the closing finale.



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